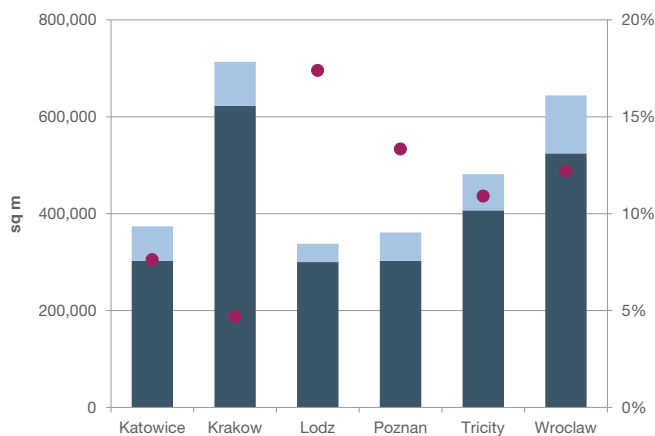


Market in Minutes Kraków office market

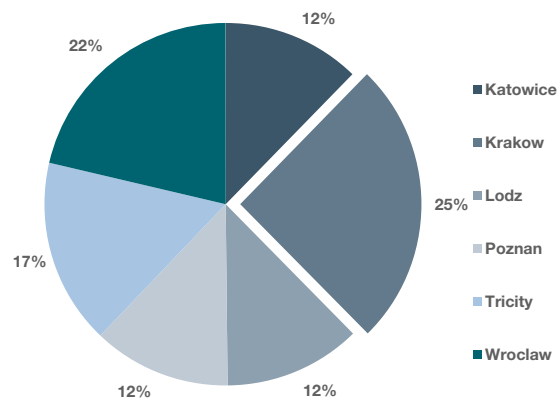
November 2013

GRAPH 1
Stock, under construction and vacancy



Graph source: Savills

GRAPH 2
Office stock in major regional markets by city



Graph source: Savills

SUMMARY

Overview

- Krakow is the second largest city in Poland in terms of population as well as one of the leading education and cultural centres in Poland.
- Krakow is also one of the fastest growing centres of business services in Central Europe.
- Total modern office stock in Kraków exceeds 0.6 million sq m, which makes it the largest regional office market.
- New supply in the first three quarters of 2013 was 17,600 sq m and is expected to reach about 25,000 sq m by the end of the year, the lowest figure since 2006.
- Low development activity has resulted in reduced availability. The average vacancy rate in Krakow was only 4.7% at the end of Q3 2013 and is expected to remain low.
- Letting activity in Q1-Q3 2013 reached 68,000 sq m, ca. 24% lower than in the corresponding period of 2012.
- Prime office rents are at €14.00-15.00 per sq m/month and may increase slightly in the short-term.

.....
 “Kraków has been steadily attracting BPO/SSC tenants and strong demand outpaced office pipeline - resulting in short-term low availability of space.”

 Tomasz Buras, Savills Office Agency

→ **Kraków**

Krakow is one of the most recognizable Polish cities not only for its history and culture but also as a knowledge and business centre. There are over 758,300 people living in the city which makes it the second most populated city in Poland.

Last year the city saw a record number of visitors with 8.95 million people coming to the city (8.6 million in 2011).

Krakow is the second largest academic centre in Poland with 22 higher education centres and almost 182,000 students. The number of graduates was close to 50,000 in 2012.

In June 2013 Krakow was ranked as the best location for modern services in CEE in the Tholons' Top 100 Outsourcing Destinations and received an ABSL Recognition Award for outstanding performance in growth of the service sector.

There are over 121,200 business entities registered in Krakow (160 per 1,000 people). Approximately 80 international companies providing different kinds of business services (finance and accounting, business analytics, HR, research and development and IT) employ 30,000 people of which the majority are graduates from Krakow's universities.

General Overview

At the end of Q3 2013 the volume of office space in the city reached 626,600 sq m having increased by only 17,600 sq m during Q1-Q3 2013. The

“Kraków remains top outsourcing destination in Poland. Requirements from new companies and already established centres constitute over 60% of demand for modern offices in the city.”

Tomasz Subocz, Savills Tenant Representation

office market is thus the biggest one amongst regional cities.

Office supply in the centre of Krakow is rather limited due to its historic character and low availability of undeveloped land. There are some refurbished tenement houses and a few office buildings (Lubicz Business Park, Blue Tower) located in the city centre.

The areas of office concentrations are thus main roads: Al. Armii Krajowej (north-western part of Krakow); al. Jana Pawła II and ul. Lublanska (north-east of the centre); ul. Puskarska, Kamienskigo and Dekerta (to the south of the city) and ul. Bobrzynskiego (south-western part of the city).

New Supply

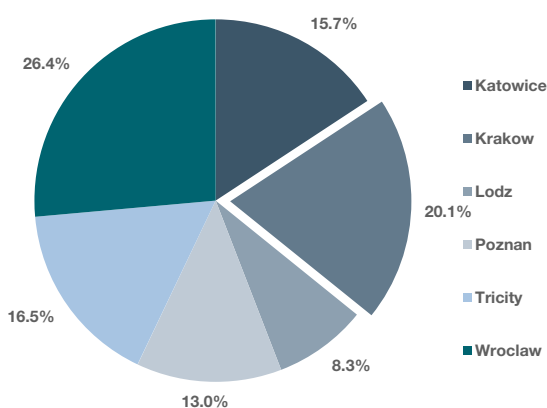
This year's supply at approximately 25,000 sq m is relatively small when compared with annual average of 42,000 sq m. The highest volume of

supply was recorded in 2009 at 88,600 sq m when developments that started at the top of the market cycle (2007-2008) were completed.

In 2012 six office buildings with a total rentable area of 49,000 sq m were completed, these were: two buildings at Enterprise Park by Avestus Real Estate (15,400 sq m), building C at Green Office by Buma (10,000 sq m), building C at Bonarka for Business by Trigranit (8,200 sq m), Jasnogorska Business Centre (6,400 sq m), Fronton by Fronton (5,700 sq m) and Excon by Express-Konkurent (3,200 sq m).

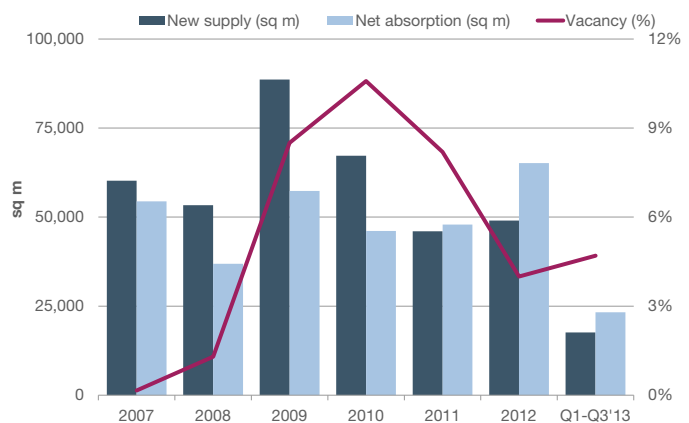
Between January and September the office market in the city increased by only 17,600 sq m located in four buildings of which the biggest was the third phase of Quattro Business Park by Buma (12,200 sq m). The other office buildings completed in 2013 are: Rybitwy B14 Office Center (2,200 sq m); Roan by F.H. Roan E.I.M. Wlodarczyk Sp. j. (1,800 sq m)

GRAPH 3 **Developments by city**



Graph source: Savills

GRAPH 4 **New supply, net absorption and vacancy in Kraków**



Graph source: Savills

and Wyczolkowski Business Center by Wydawnictwo Kluszczyński (1,400 sq m).

As of October 2013 there were eleven projects under construction with a total rentable area of 90,800 sq m of which 7,500 sq m is expected by year-end and further 76,000 sq m in 2014.

outside the city centre. Krakow seems to be attractive for these sectors due to the presence of a well-qualified labour market.

Business service sector operators in Krakow include: Capgemini, IBM, Shell, Nokia Siemens Network, State Street, UBS, HSBC, Cisco and Sabre.

“Larger occupiers in Kraków should consider pre-lease agreements if they want to secure best space in future projects.”

Tomasz Buras, Savills Office Agency

Availability

Availability of office space was the lowest in Krakow when compared with vacancy rates in regional cities. Only 29,100 sq m or 4.7% of stock was ready to be let at the end of the third quarter of 2013.

Vacancy is forecast to remain low to year-end as approximately 40% of space under construction has been already committed to.

Demand

The profile of office tenants in Krakow remains relatively unchanged with BPO and SSC sectors and consultancy companies leading in terms of the volume of leased space. Banking and finance, professional services and law firms tend to locate in the city centre, also in refurbished tenements. IT and production companies usually occupy buildings

Total letting activity during Q1-Q3 2013 was estimated at 68,000 sq m, ca. 63% of the space let in 2012. Almost 40% of total gross take-up accounted for pre-lease agreements. It should be also noted that 13% of the volume came from expansion of existing tenants.

The three biggest leases concluded this year were pre-lease agreements: a 8,500 sq m Lufthansa lease at Bonarka 4 Business, 7,000 sq m let by Cisco at Enterprise Park, and 4,700 sq m taken by Brown Brothers Harriman at Orange Office Park.

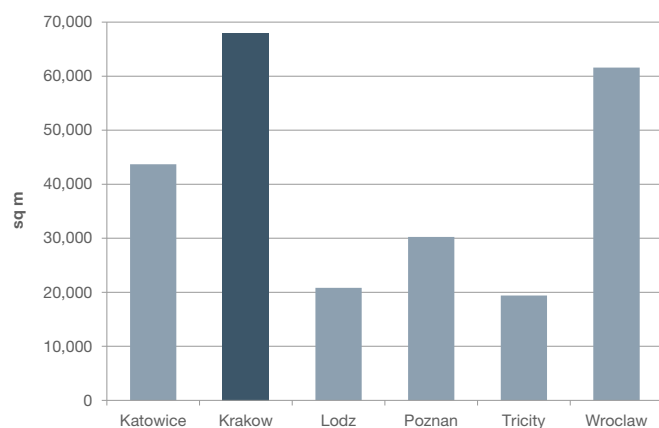
Net absorption in Q1-Q3 2013 was low (23,300 sq m), mostly because of the limited supply. Last year's absorption reached 65,200 sq m.

TABLE 1
Kraków - key facts

| | |
|---|---|
| Population (Dec 2012) | 758,334 |
| Unemployment (Sep 2013) | 6.0% |
| Average gross salary (2012) | PLN 3,878 per month |
| Number of students (2012) | 181,924 |
| Number of graduates (2012) | 48,518 |
| Higher education institutions | 22 |
| International Airport | Kraków Airport Balice |
| Number of passengers (2012) | 3,409,000 +13.8% y-o-y |
| Selected BPO/SSC/ IT/R&D companies | Capgemini, IBM, Nokia Siemens Network, Shell, State Street, Sabre |
| Modern office stock (Q3 2013) | 622,600 sq m |
| Under construction (Q3 2013) | 90,800 sq m |
| Available office space (Q3 2013) | 20,100 sq m |
| Vacancy rate (Q3 2013) | 4.7% |
| Letting activity (Q1-Q3 2013) | 68,000 sq m |
| Prime headline office rents (Q3 2013) | €14.00-15.00 per sq m/ month |

Source: Savills / GUS

GRAPH 5
Letting activity in regional cities in Q1-Q3 2013



Graph source: Savills

TABLE 2
Largest office projects to be completed in 2013 - 2014

| Project | Developer | Size | Date |
|--------------------------------|-----------------------|--------|-------|
| Kapelanka 42 | Skanska | 30,000 | Q3 14 |
| Quattro Business Park III | Buma | 12,000 | Q3 13 |
| Amsterdam - Orange Office Park | East-West Development | 11,200 | Q1 14 |
| Avia | GD&K / CA Immo | 10,800 | Q4 14 |
| Alma Tower | UBM | 10,000 | Q2 14 |
| Bonarka 4 Business D | Trigranit | 8,700 | Q4 13 |
| Pascal | GTC | 5,200 | Q4 13 |

Source: Savills

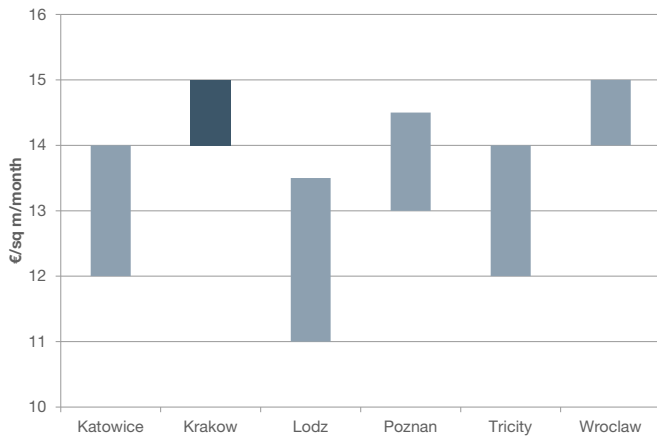
→ **Rents**

The level of prime headline office rents in Kraków is in the range of €14.00–15.00 per sq m/month. In B-class office buildings they vary between €10.00–14.00 per sq m/month.

As the availability of office space is very limited in the city and is expected to remain low by year end, rents are likely to increase slightly in the short term.

Service charge varies between PLN 12.00–16.00 per sq m/month, whereas the cost of underground parking space ranges between €50.00 and €80.00 per month. ■

GRAPH 5 **Prime headline office rents in major regional cities**



Graph source: Savills

OUTLOOK

Growth in business services sector to remain major driver of demand for modern offices

■ Krakow holds a position of the largest and fastest growing location for business services with growth in employment in the sector exceeding 25% during the 18 months period (2012-H1 2013) and an extraordinary share of 23% in the sector's employment countrywide. This should be one of the major drivers of a further sustainable growth of the office market.

■ Total modern office stock is expected to reach 630,000 sq m by the end of 2013 and ca. 706,000 sq m by the end of 2014, thus Krakow will maintain its position of the largest office market among Polish regional cities.

■ Average vacancy rate is expected to remain low, resulting from limited development activity this year.

■ Take-up is expected to remain stable, but will be driven mainly by renegotiations and pre-lets, since the availability of office space in existing buildings remains low.

■ Low availability of office space may encourage landlords to increase headline office rents, in prime locations particularly.

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