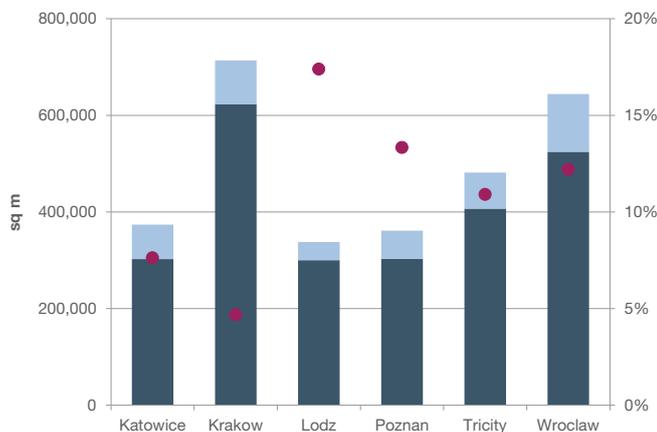


Market in Minutes

Lodz office market

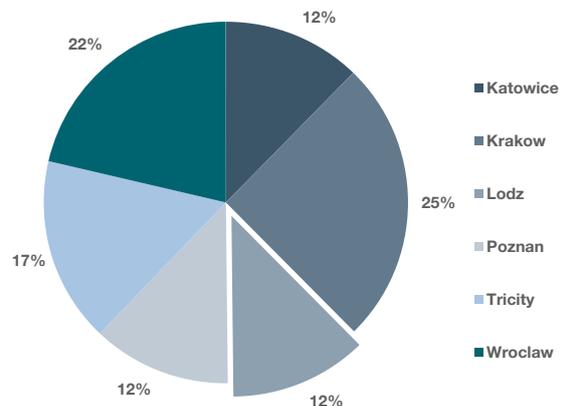
November 2013

GRAPH 1
Stock, developments and vacancy rate



Graph source: Savills

GRAPH 2
Office stock in major regional markets by city



Graph source: Savills

SUMMARY

Overview

- The total stock of modern offices in Lodz exceeded slightly 300,000 sq m, a similar level to Poznan and Katowice.
- So far this year four office buildings were completed with a total office space of 22,580 sq m, all in the second quarter of the year. This has already slightly exceeded the entire new supply for 2012 (ca. 21,500 sq m). We do not expect any further completions this year.
- 40,200 sq m of new office space is under construction. Deliveries are scheduled for 2014, but will be dependent on pre-leasing.
- Following 15 months of subsequent decreases in the average vacancy rate, it rose from 11.9% to 17.3% over the last six months.
- Take-up in Q1-Q3 2013 was at ca. 20,800 sq m, comprising mainly new leases and expansions of existing tenants.
- Prime office headline rents are €11.00-13.50 per sq m/month, with effective rates at significantly lower levels, due to extensive incentive packages offered by landlords.

.....
 “The growth of office stock in Lodz over the last six years was the highest among regional cities in Poland. Increase in average vacancy rate was inevitable.”

 Tomasz Buras, Savills Office Agency

→ **Lodz**

Strategically located at the intersection of A1 and A2 motorways, Lodz is the third largest city in Poland in terms of population and a growing location on the Polish business services map.

Former textile industry centre moved into one of the fastest growing Business Process Outsourcing / IT centres, following the implementation of a long-term strategy of development for 2006-2015 prepared by McKinsey & Company in cooperation with local city authorities. Successful launch and dynamic growth of such business service centres as: Infosys, Fujitsu-Siemens, South Western Solutions attracted more international investors to locate their service centres in Lodz, benefitting from the availability of skilled workforce and relatively low employment costs (the lowest among six largest regional cities in Poland). Development of the BPO sector is supported by University of Lodz, which is the first tertiary education centre in Poland offering postgraduate studies in management of BPO centres.

Additionally, Lodz became a popular location for home appliances and electronics manufacturing and assembling. The largest investors are Bosch - Siemens, GE, Gillette and Dell. This sector benefits from availability of workforce and relatively low labour costs as well as central location of Lodz. Currently, the region of Lodz is one of the largest logistics hubs in Poland, with the expectation to grow further, as a result of improving road networks and the recent launch of the

“The city landscape and infrastructure is now undergoing vast redevelopment. New City Centre may become a dominant location for business in a few years time. ”

Tomasz Subocz, Savills Tenant Representation

first regular cargo railway connection with China, which enables European companies to significantly reduce shipment time and costs compared to traditional sea transport.

Last but not least, Lodz is now promoting itself as a city of creative industries and strongly supports all initiatives promoting creativity. The most spectacular investment in this field is a cultural part of the New City Centre (currently under construction) which will provide unique opportunities for designers, filmmakers, sound engineers and other creative professionals.

General Overview

The office market in Lodz was a bit sluggish before 2008 and the size of modern office stock was significantly lower than in other major regional cities. Office development accelerated in 2008 and the stock grew by over 200% by the end of 2012.

Increased development activity in the period of economic slowdown resulted in significant growth in vacancy, which in 2009-2011 exceeded 20%.

High availability forced landlords to decrease headline rents and to offer outstanding incentives to attract tenants. Immediate availability of office space and relatively low occupancy costs became the advantage for the city to attract more BPO business.

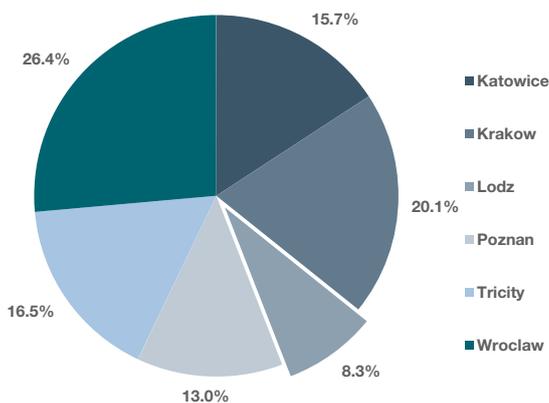
Currently, the office market is stabilising in terms of development activity, which is now more carefully adjusted to demand. Total office stock is now at 300,300 sq m, out of which ca. 17.3% remains vacant.

New Supply

In Q1-Q3 2013 new office supply in Lodz was at 22,580 sq m, most of which (14,000 sq m) was the second phase of Green Horizon developed by Skanska, partly pre-let to Infosys, who occupies most of the space in Green Horizon I.

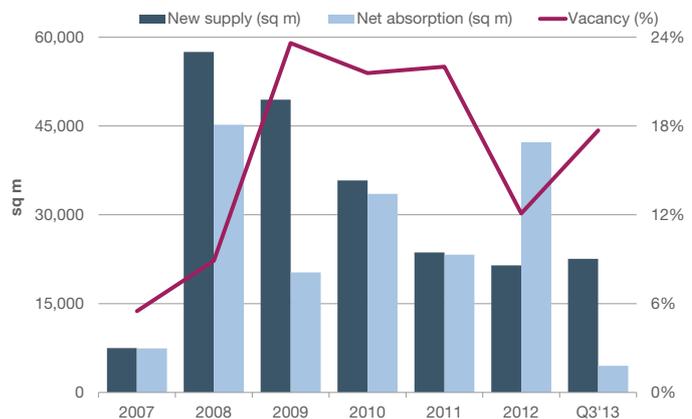
The other buildings completed in H1 2013 were: Media Hub (3,850 sq m) - the office component of the newly built DoubleTree by Hilton Hotel, Przedzalnia Grohmana (3,600 sq m) - office development located within the Special Economic Zone in Lodz (granted the title of best commercial development of the last year in Europe

GRAPH 3 **Developments by city**



Graph source: Savills

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



Graph source: Savills

at recent Expo Real in Munich) and Wydawnicza Business Park (1,130 sq m).

About 40,200 sq m of office space is currently under construction, however, this includes the second phase of University Business Park (18,700 sq m) which is almost completed but its developer, GTC, is awaiting pre-leasing to finish internal works and apply for an occupancy permit, as well as the second phase of Targowa 35 (8,500 sq m), which also requires pre-lets to be delivered. The other two buildings

new office buildings. Nevertheless, vacancy is now lower than in 2009-2011 when it peaked at over 20%.

The office market in Lodz, similarly to such cities like Poznan or Katowice, is still relatively small, which makes it very volatile and sensitive to new supply. Since there are office developments, that can be completed in a short time, once at least part of their space is leased, the vacancy rate will remain relatively high in Q4 2013 and in 2014.

“Smaller markets are more sensitive to supply changes. Delivery of one larger project significantly influences vacancy rate unless tenants are secured earlier, at construction stage.”

Tomasz Buras, Savills Office Agency

under construction are Synergia building C (2,500 sq m) and the new headquarters of Ericpol (10,500 sq m). Aurus, office development by Echo Investment is still on hold, awaiting more tenants activity.

Availability

Almost 52,000 sq m of office space was available to lease in completed office buildings at the end of Q3 2013, reflecting ca. 17.3% of the stock.

The average vacancy rate increased over the last nine months from 12.4% to 17.3% as a result of delivery of four

Demand

Office take-up in Q1-Q3 2013 was at 20,800 sq m, ca. 78% of the entire 2012 volume. Most of that accounted for new leases and expansions of existing tenants, the largest of which were: expansion of Infosys in Green Horizon (phase II) by 4,400 and later by 2,200 sq m and expansion of Samsung by 1,600 sq m in University Business Park.

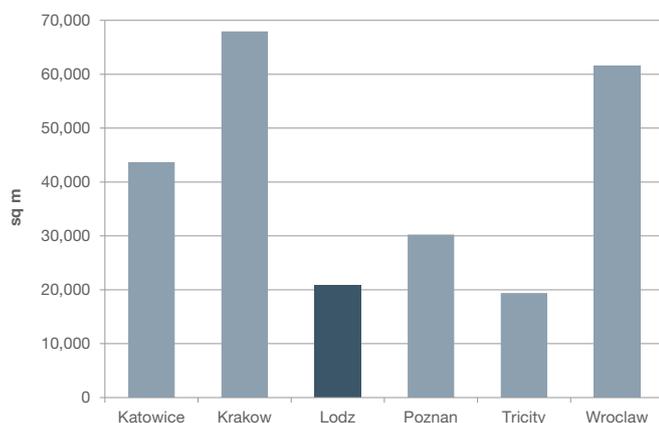
The largest new leasing transactions were 1,700 sq m leased by Accenture in (University Business Park phase →

TABLE 1
Lodz - key facts

Population (Dec 2012)	718,960
Unemployment (Sep 2013)	12.2%
Average gross salary (2012)	PLN 3,569 per month
Number of students (2012)	91,546
Number of graduates (2012)	24,825
Higher education institutions	22
International Airport	Lodz W. Reymont Airport
Number of passengers (2012)	463,500 +18.8% y-o-y
Selected BPO/SSC/IT/R&D companies	Infosys, Fujitsu, Tate & Lyle, Citi Group, SouthWestern Solutions, PwC, Deloitte, HP, Samsung, Accenture, Nordea
Modern office stock (Q3 2013)	300,300 sq m
Under construction (Q3 2013)	40,200 sq m
Available office space (Q3 2013)	52,000 sq m
Vacancy rate (Q3 2013)	17.3%
Letting activity (Q1-Q3 2013)	20,800 sq m
Prime headline office rents (Q3 2013)	€11.00-13.50 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 - 2015

Project	Developer	Size (sq m)	Date
Targowa 35 (phase II)	Domena s.c.	8,500	2013 /2014
University Business Park (phase II)	GTC	18,700	2014
Synergia (bldg C)	Inter-Mar	2,500	Q2 14
Ericpol II (new Ericpol HQ)	Ericpol Nieruchomosci	10,500	Q4 14
Aurus (phase I)	Echo Investment	9,500	2015
Aurus (phase II)	Echo Investment	9,600	2015
Avangarda Center (phase I)	Okam	7,000	2015

Source: Savills

→ I), 964 sq m leased by PGE Systemy in Sterlinga Business Centre and 900 sq m leased by PKP Informatyka in University Business Park.

Tenant activity is expected to remain stable in Q4 2013 and 2014 with most demand coming from the expansion of existing tenants and newcoming international companies, representing mainly BPO/SSC and IT sectors.

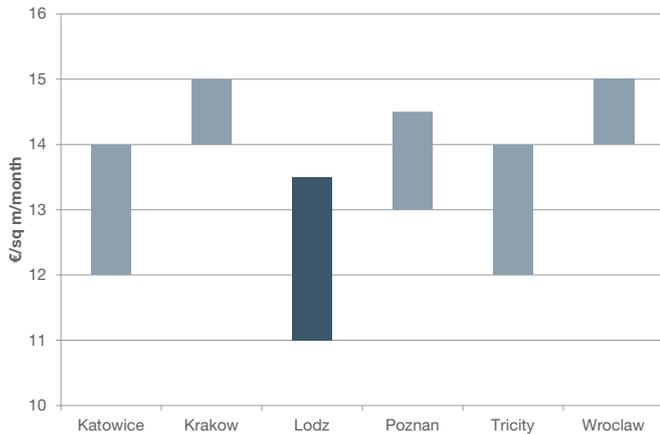
Rents

Prime office headline rents in Lodz range between €11.00-13.50 per sq m/month. In less popular locations, headline rents are lower by up to €2.00

per sq m/month.

Office rents in Lodz are relatively lower compared to competitive regional office markets. Since the availability of office space remains high, tenants may now count on significant rent-free periods and other incentives which significantly decrease effective rental rates. We expect this to continue be the case over the next 18 months. ■

GRAPH 5
Headline office rents in regional cities



Graph source: Savills

OUTLOOK

The city under re-construction

Currently, Lodz is undergoing revolutionary urban changes of which the most significant is a New City Centre. This urban regeneration scheme covers an area of 90ha located within the City Centre divided into 30ha zone dedicated to cultural functions (under construction) and 60ha dedicated to future commercial developments thus creating a new space for business within the city centre, in which a concentration of cultural and commercial functions embracing office, retail/services, hotel as well as residential and educational functions, is planned.

Additionally, vast re-construction of city's transport infrastructure is now in progress, embracing the redevelopment of Lodz Fabryczna railway station, modernisation of railway, construction of the eastern city bypass (S-14), redevelopment of city centre roads and selected major arteries, as well as redevelopment of city's regional tram line.

A significant share of these investments will be completed by the end of 2015 and altogether are intended to change the cityscape, creating a friendly environment for residents and for business. It is going to be a difficult period for Lodz, however, it should significantly improve attractiveness of the city and increase the pace of business development, allowing to fully use the city's potential. Faster growth of the office market should be a natural consequence of these changes, and although this is not a short term perspective increasing investor interest is already visible.

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