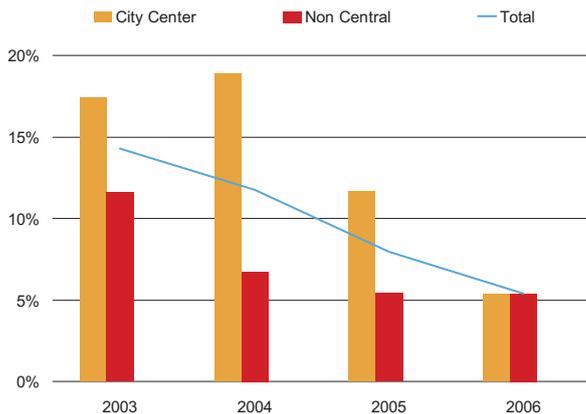


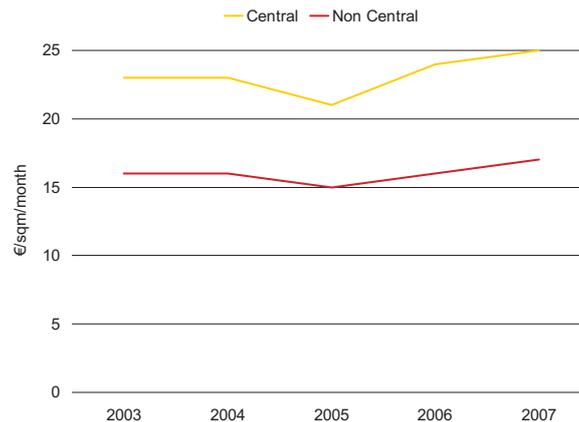
Poland Office market report

March 2007

Vacancy rates are falling



Prime rents show signs of positive growth trend



“Low labour costs and the availability of highly-skilled employees is driving the occupational markets across the country. All main office markets are experiencing growth in demand and rising rental levels.”

Ewelina Baszynska

- The Polish office market is dominated by Warsaw but some of the larger regional office markets are becoming increasingly important.
- In Warsaw supply has been increasing during the last few years, whereas in the main regional cities supply has been more limited.
- Due to growing demand in the office market, many previously 'on-hold' projects are to be developed and delivered in 2007/2008.
- The main drivers in the occupational markets are low labour costs and the availability of well-educated, highly-skilled employees.
- All main cities are experiencing growth in demand and rising rental levels.
- In Warsaw prime CBD rents are likely to reach €25/sqm/month in 2007. This trend is expected to moderate in 2008 as more buildings will be delivered onto the market.

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Warsaw office market

Economy

Economic activity accelerated in 2006 driven by increases in consumer spending and investment. Exports also continue to grow. Inward investment helped maintain productivity growth and employment levels increased in line with the upturn in economic activity. The same factors are forecast (Experian) to lead to 5% economic growth in 2007. employment growth is also expected to remain buoyant, expanding at 1.2%.

Warsaw

Demand and take-up

The office market underwent significant changes over the period 2003-2006 that led to a decrease of leasing activity. The lowest level of take-up was noted in 2003 at 86,600sqm down from 268,000sqm in 2004.

Conversely 2006 was a record-breaking year with the highest take-up and the lowest vacancy rates ever noted in nearly all of the submarkets. Overall take-up increased to 412,200sqm, of which over half was recorded in the Upper Mokotów (NCL). This reflects improving business confidence caused mainly by the accession of Poland to the European Union in 2004, accompanied by growing GDP and increased profitability of companies.

Service sector firms seek modern and high quality buildings in the CBD or in fringe-CBD locations, whilst NCL attracts IT, telecommunication, pharmaceutical and manufacturing companies. Ochota draws mainly pharmaceutical companies and other enterprises looking for cheaper solutions for their back-office functions. Take-up in 2006 in NCL was in the region of 226,000sqm.

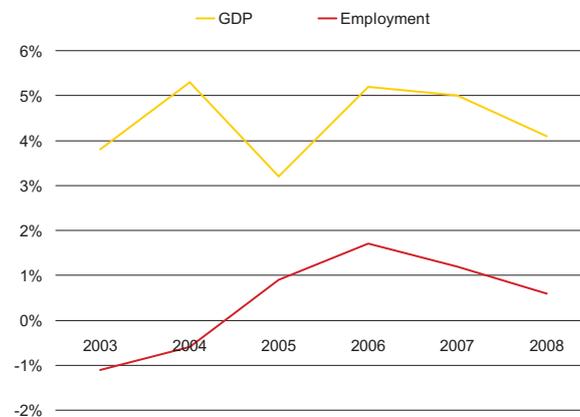
Supply and vacancy rate

During the period of 2003-2006, approximately 530,500sqm of office floorspace was delivered to the market in Warsaw. The availability in 2006 amounted 185,000sqm, however, as new office projects will be released on the market in 2007 and 2008, we expect supply to increase.

At the end of 2006, modern office stock in Warsaw amounted to around 2.56m sqm. Of this 40% is located in the CBD, whilst NCL offers more than 1.5m sqm of office space which is almost 60% of total stock.

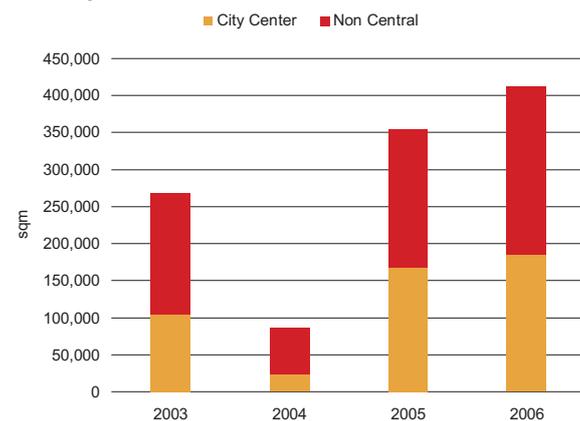
The largest office developments delivered onto the market in 2006 included: Rondo 1 (56,000sqm), Prosta Office Center I (18,600sqm), Salzburg Center (10,100sqm) Trinity Park I (18,100sqm), Topaz (11080sqm), Domaniewska Office Park – Alpha (5,600sqm).

Economy



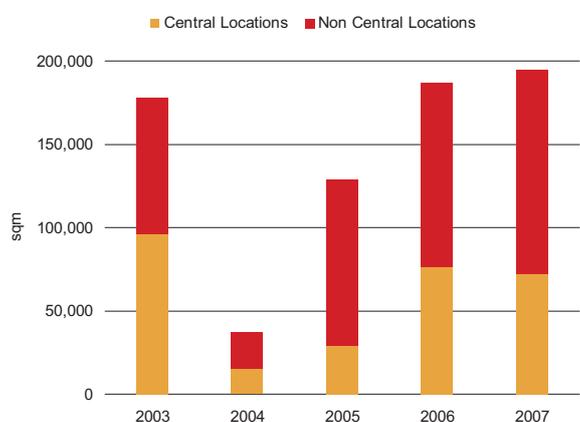
Source: Experian

Take-up



Source: Savills

Development completions



Source: Savills

Warsaw office market

Development activity in the NCL focused mainly on the Mokotów and Wola districts and along Al. Jerozolimskie and Zwirki i Wigury. According to current estimates, new supply will increase significantly in 2007 and 2008.

Major office projects to be delivered to the market by the end of 2008 are: Złote Tarasy (45,000sqm), IBC II (19,000sqm), North Gate (28,000sqm), Trinity Park II (24,000sqm), IO-1 (23,500sqm), Horizon Plaza (35,000sqm), Marynarska Business Park (46,000sqm).

The vacancy rate in the CBD was high in 2003 at 17.4%, rose slightly in 2004 to 18.9% before falling consistently to 5.3% in 2006. By comparison the vacancy rate in the NCL fell earlier from 11.6% in 2003 to 6.7% in 2004 and remained relatively stable through to 2006 at 5.4%.

Within the NCL there are differences in vacancy rates. The most attractive areas outside the CBD were Wola and Mokotów. Wola attracted new developments due to the availability of land and easy access to the CBD, whilst Mokotów offered full land ownership and near-perfect infrastructure, together with ideal accessibility to the city centre and to the airport.

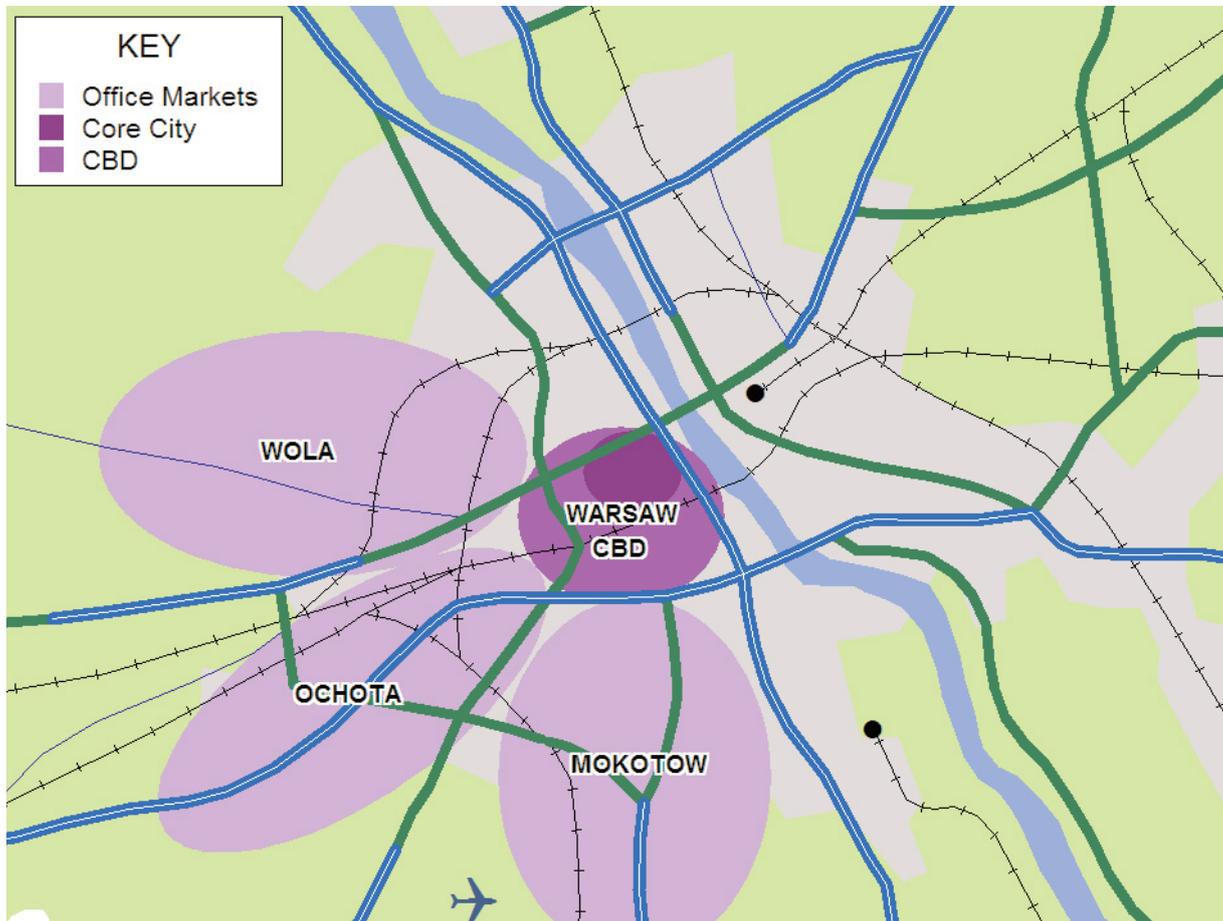
Rental levels

Since 1998 rents have been falling and started stabilising over the past two years. 2006 was the first year in which an increase in rental levels has been recorded. In 2006 average rents in Warsaw remained stable, whereas rents in NCL showed some growth signs. In CBD prime rents were €19-24/sqm/month, while in NCL rents reached €12-16/sqm/month.

Typical lease terms are between 3-7 years, while rent-free periods vary from 3 to 9 months. Currently the market is witnessing reducing amounts of incentives. Due to incentives offered (rent-free periods, fit-out contributions) net effective rents are lower than headline rents, depending on the tenant covenant, the size of the deal and the length of the lease term.

In general, incentives can be represented as reducing the headline rent to a net effective rent, which currently is about 10-12%, down from 15-20% 12 months ago. We consider that the value of concessions is now reducing further and can be expected to be closer to 8-10% in 2007.

Warsaw office market map



Regional office markets

Regional office markets

Kraków

Kraków has the 2nd position in Poland in terms of the size of modern office stock. Modern office floorspace is concentrated in four main areas of the city: Western area, which is the most prestigious, modern and fast-developing area; Eastern area, including the IT park, which is situated near to the Kraków University of Technology Campus; Southern area, offering mainly B-class buildings of semi-industrial character and the fringe of the historical center, where developers obtained permission to construct four significant office schemes, including Citibank building, Nowe Miasto, Cracovia Business Center and Centrum Lubicz.

High quality office floorspace in refurbished buildings in the city center comprise an important proportion of modern office stock in Kraków, although only 33% of the whole stock is located in the city center.

Tricity

The modern office market in Gdansk, Gdynia and Sopot, which together form the Tricity area, is currently 3rd in Poland in terms of size (over 233,000sqm). Nearly half of this office floorspace is located out of the city center, along the main communication lines connecting the north-west with the south of the Tricity.

Due to its rich historical background as well as many historical buildings, especially in the area of Gdansk Old Town, projects must firstly undergo an archeological investigation of the land. As a result most modern office buildings are built out of the city center, while projects in the area of the Old Town are generally restricted to refurbishment and conversion to office use.

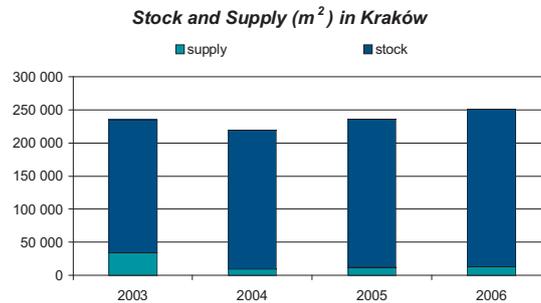
The majority of office floorspace in Gdynia is concentrated along Slaska and 10 Lutego streets. The third city, Sopot has a more tourist character and no major office developments have been completed there.

Wroclaw

Most of the modern office stock in Wroclaw is located out of the city center, due to the historic nature and architecture of the center. The most important office locations are the Southern area, located along Slaskich and Slezna streets and including such developments as: Poltegor, Biprol and the Warta Office Building, and the Western area, currently the fastest developing submarket in Wroclaw.

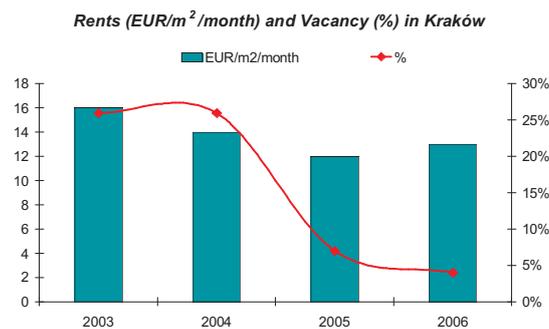
In recent years, demand for office floorspace was mainly generated by international IT and telecommunication companies, which were attracted by low vacancy rates. Developers are now fully aware that demand outweighs supply, which has reduced the vacancy rates to around 5%.

Kraków stock and supply



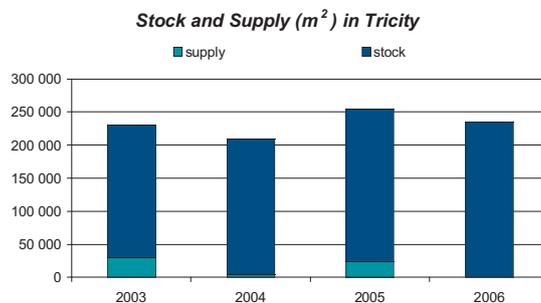
Source: Savills

Kraków rents and vacancy rate



Source: Savills

Tricity stock and supply



Source: Savills

Regional office markets

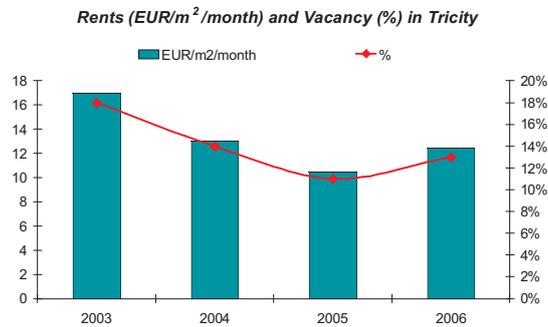
Poznan

During 2001 – 2003 there was a significant slow-down in economic activity in Poznan as a result of which the city was overtaken by other developing cities in Poland as a destination for office occupiers. In terms of size of the office market, Poznan now takes the 6th place in Poland. Most of the office floorspace is located in the city center. The majority of office floorspace is located in speculatively built developments.

Katowice

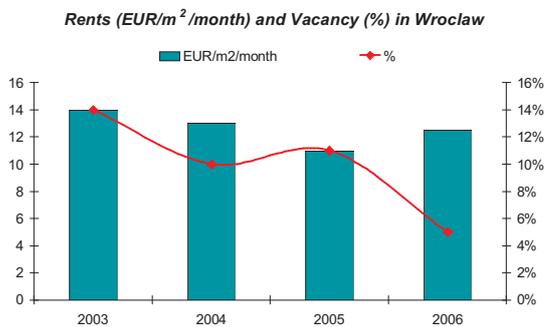
Katowice is re-known for its dense road and rail infrastructure, which provides good access around the city; as a result it has the potential to become one of the important office markets in Poland. At present, however, the majority of the office stock (67%) including the larger buildings, is located in the city center. The region has an industrial character and is expected to experience economic changes in the near future, providing opportunities for development. Some of the projects that were put on hold in the previous years are still waiting to be delivered e.g. Katowickie Centrum Biznesu.

Tricity rents and vacancy rate



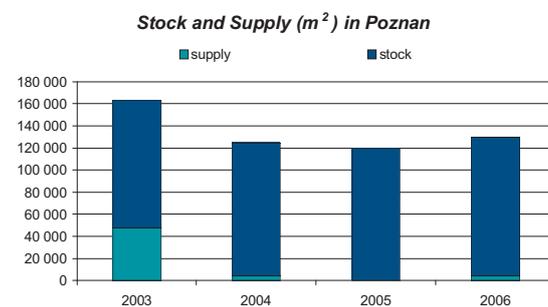
Source: Savills

Wroclaw rents and vacancy rate



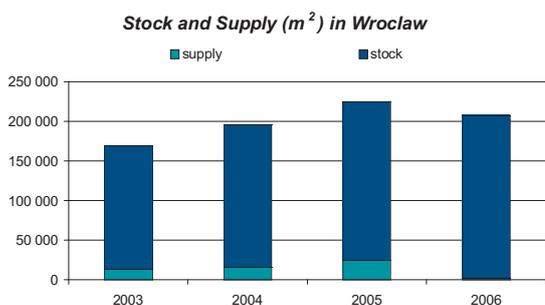
Source: Savills

Poznan stock and supply



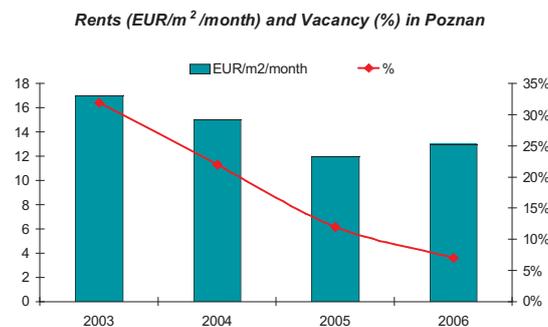
Source: Savills

Wroclaw stock and supply



Source: Savills

Poznan rents and vacancy rate



Source: Savills

Outlook

Outlook

Warsaw is the centre of the service sector and remains the largest office market in Poland. According to our predictions total take-up in the next few years in the CBD will be in the region of 100,000 - 120,000sqm and in NCL at around 200,000 - 250,000sqm per year.

We expect headline rents to increase in 2007, due to increasing demand, limited new supply and low vacancy rates. Rents are likely to reach €25/sqm/month in the CBD and €17/sqm/month in NCL. This trend is expected to moderate in 2008 as more buildings will be delivered onto the market.

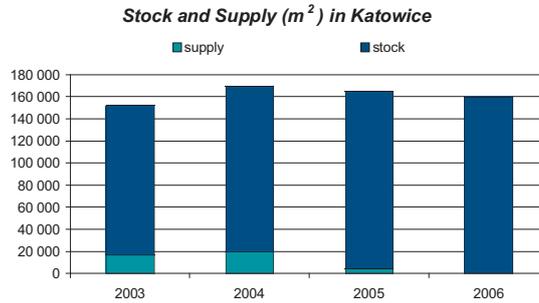
Over the past four years the supply of new offices in Kraków has decreased. As a result the vacancy rates are falling; the level of pre-lets is growing indicating strong demand from tenants.

Conversely in Gdansk most developers are engaging in built-to-suit projects, however speculative development activity is expected to grow in 2007, spurred on by the increasing demand in the Tricity area.

Large international developers including Skanska and Ghelamco are launching their projects in Wroclaw at a time of growing demand and low vacancy rates; it is expected that rents will remain stable in 2007.

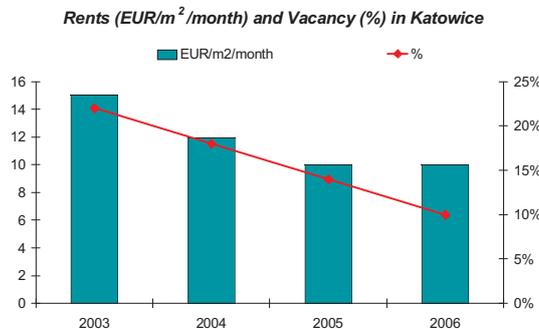
Following a period of lower economic activity, rents are expected to grow in Poznan during 2007 as the vacancy rate decreases.

Katowice stock and supply



Source: Savills

Katowice rents and vacancy rate

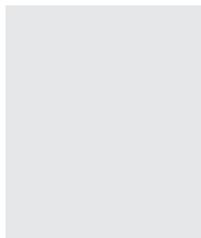


Source: Savills

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