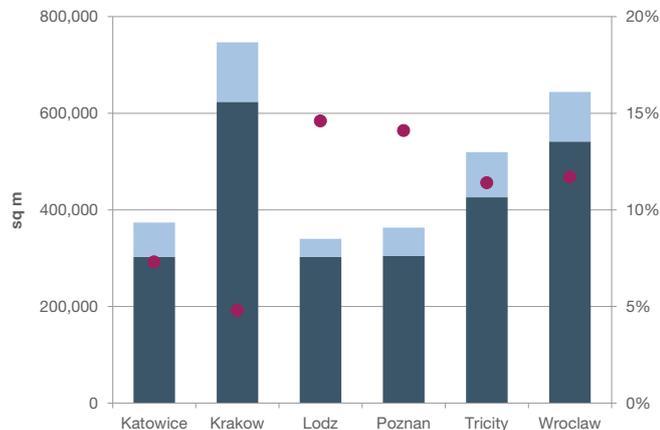


Market Report

Wrocław office market

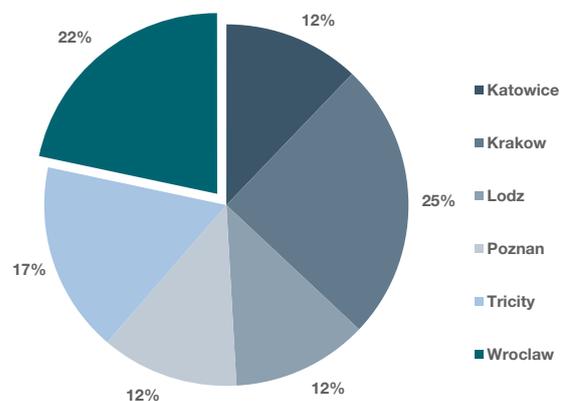
March 2014

GRAPH 1
Stock, developments and vacancy in major regional cities



Graph source: Savills

GRAPH 2
Office stock in major regional markets by city



Graph source: Savills

SUMMARY

Overview

■ The total modern office stock in Wrocław reached 541,300 sq m at the end of 2013, reflecting an annual growth by ca. 73,600 sq m.

■ New supply comprised nine buildings, the largest of which was the office part of Sky Tower (28,100 sq m).

■ As a result of high development activity over the last two years, the average vacancy rate increased in 2013 to 11.7% compared to 8.0% at year-end 2012 and 4.5% at the end of 2011.

■ In comparison with other regional markets, letting activity remained high last year, with ca. 69,700 sq m leased, however, was ca. 22% lower than in 2012.

■ We expect ca. 55,000 sq m of new office space to be delivered in Wrocław in 2014, and up to 155,000 sq m in 2015.

■ Prime office rents remain stable at €14.00-15.00 per sq m/month, however, we may see more downward pressure on effective rents, especially in case of pre-lets.

.....
 “The pace of office development in Wrocław is accelerating, which is expected to put more downward pressure on effective rents, which may further increase the competitiveness of this established market.”

 Tomasz Buras, Savills Office Agency

➔ **Wrocław**

With over 631,000 inhabitants Wrocław is the fourth largest city in the country. Wrocław is a strong economic, educational and cultural centre. The city's position as an academic centre is proven by over 134,300 students at 25 higher education institutions of which the largest are the University of Wrocław, Wrocław University of Technology and Wrocław University of Economics.

The ca. 105,100 business entities registered in Wrocław create ca 3% of the country's GDP. The November 2013 unemployment rate was 5.7%, much below the Polish average (13.2%) and the average gross salary was PLN 3,924 per month, ca. 5% higher than the national average. The city's economy is diversified from IT companies (e.g. HP, Atos, Dolby, IBM, PGS Software, Sygnity) via financial services (e.g. Credit Suisse, Credit Agricole, Kruk, VB Leasing) and automotive industry (e.g. Volvo, Faurecia, Wabco) to life sciences (e.g. Hasco-Lek, MacoPharma, US Pharmacia).

Proximity of the A4 motorway provides good road access to Krakow, Silesia and Germany. The city's international airport connects to more than 30 European destinations.

General Overview

Modern office stock in Wrocław reached almost 541,300 sq m at the end of 2013, of which 73,600 sq m was delivered to the market last year. Thus, Wrocław is the second largest

“Last year's new supply reached 73,600 sq m, significantly above it's 10-year average of 31,100 sq m. Now we expect up to 210,000 sq m of new office space to be delivered over the next 24 months.”

Tomasz Subocz, Savills Office Agency

office market among Polish regional cities (excluding Warsaw), with the office stock ca. 13% smaller than in Krakow.

Major office locations in the city are the Old Town and its surroundings dominated by tenement houses converted into office buildings and some new developments (Bema Plaza, Grunwaldzki Center); Southern parts of the city along Powstancow St. and Karkonoska St. where Aquarius Business Centre, Rodis Centre and Raclawicka Center amongst others are located and finally western parts of Wrocław along Strzegomska St., Legnicka St., Lotnicza St. where projects like Wojdyla Business Centre, Green Towers or Millenium Towers are located.

Local developers such as Vantage, Archicom, Descont, Devco, Fig, Gant, Wojdyla Budownictwo play an important role developing some of the most recognizable buildings in the city.

New Supply

Over 73,600 sq m of new office space was delivered in Wrocław last year,

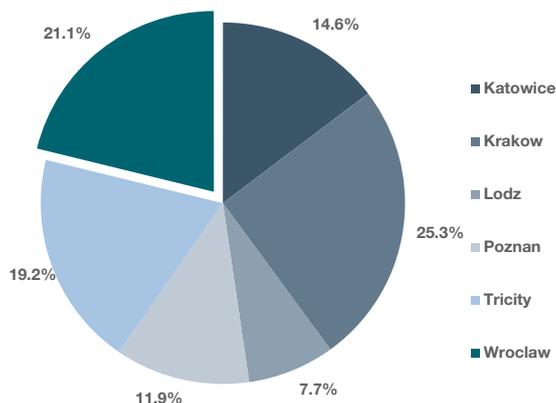
which was 11.6% higher than in 2012 and significantly more compared to the 10-year average new supply of ca. 31,100 sq m.

The largest projects completed last year were: the office part of Sky Tower by LC Corp (28,100 sq m), the second building at Green Towers by Skanska (10,800 sqm) and the second phase of Aquarius Business House by Echo Investment (9,000 sq m).

Development activity is now accelerating, which confirms developer confidence about marketability of their new projects in Wrocław. Currently, over 103,000 sq m of new office space is under construction, of which ca. 55,000 sq m is scheduled for this year. In 2015 new supply may reach a record high level of up to 155,000 sq m.

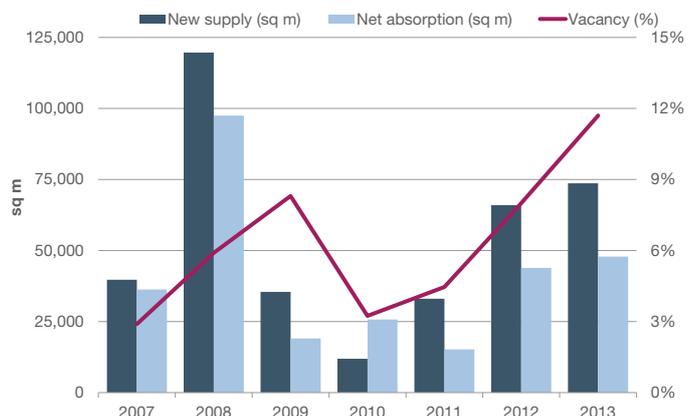
Skanska, Echo Investment and SwedeCenter are currently the most active developers in regional cities, and this is also the case in Wrocław, where they have ca. 35% share in the 24 month office pipeline.

GRAPH 3 **Developments by city**



Graph source: Savills

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



Graph source: Savills

The largest developments in Wrocław are Dominikanski, a 36,500 sq m office development by Skanska to be delivered in the second quarter of 2015 and the first phase of Business Garden Wrocław, a 24,000 sq m development by SwedeCenter to be completed by year-end 2015.

Availability

High development activity over the last two years led to significant growth in the average vacancy rate from 4.5% at

high and accounts for ca. 80% of total office space under construction.

Demand

In comparison to other regional cities demand for office space in Wrocław remains high. A higher volume of leasing transactions signed in 2013 was recorded only in Kraków. On the other hand, net absorption figures are more supportive for Wrocław, which means, that higher share of new leases in Wrocław accounted

.....
 “Rising office availability is an advantage for newcomers companies allowing them to choose from wider offer and negotiate more favourable terms.”

 Tomasz Buras, Savills Office Agency

the end of 2011 to 8.0% one year later and further to ca. 11.7% at the end of 2013. This is a relatively high level for Wrocław compared to historical data, but nearly in line with current average vacancy rate for all Polish major regional office markets, which is estimated at 10.9%.

Tenants looking for larger office within existing office buildings have a choice of 11 buildings offering 2,000-5,000 sq m. There is no existing office property offering more than 5,000 sq m. In this case tenants have to choose among buildings that are under construction or planned. Within office buildings that are under construction, availability is

for newcomers companies and expansions whereas in Kraków take-up was dominated by relocations and renewals.

In 2013 Wrocław had also the highest volume of expansions among regional cities which confirms that business was developing well in this location.

The average size of the office leased in Wrocław in 2013 was 1,180 sq m, however, within the pre-let deals it was significantly larger at ca. 3,200 sq m.

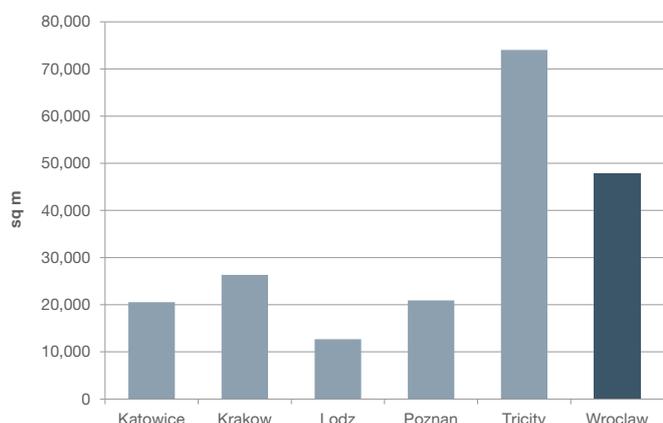
The biggest leases signed in 2013 were: the Getin Group at Sky →

TABLE 1
Wrocław - key facts

Population (Dec 2012)	631,188
Unemployment (Nov 2013)	5.7%
Average gross salary (2012)	PLN 3,924 per month
Number of students (2012)	134,383
Number of graduates (2012)	35,151
Higher education institutions	25
International Airport	Wrocław Nicolaus Copernicus Airport
Number of passengers (2012)	1,942,000 +20.9% y-o-y
Selected BPO/SSC/IT/R&D companies	HP, Credit Suisse, Capgemini, IBM, Nokia Siemens Networks, Tieto, Volvo, UPS, Unicredit, Ernst & Young, Geoban
Modern office stock (Q4 2013)	541,300 sq m
Under construction (Q4 2013)	103,000 sq m
Available office space (Q4 2013)	63,100 sq m
Vacancy rate (Q4 2013)	11.7%
Absorption (2013)	47,900 sq m

Source: Savills / GUS

GRAPH 5
Absorption in regional cities in 2013



Graph source: Savills

TABLE 2
Largest office projects to be completed in 2014 - 2015

Project	Developer	Size	Date
Green Day	Skanska	14,000	Q2 14
Silver Tower Center	Wisher Enterprise	7,200	Q3 14
West Gate	Echo Investment	16,200	Q4 14
Promeandy Zita	Vantage Development	22,000	Q4 14
Dominikanski	Skanska	35,500	Q2 15
Gamma	Vantage Development	14,500	Q2 15
Millenium Tower III	Descont	11,800	Q3 15
Business Garden Wrocław I	SwedeCenter	24,000	Q4 15

Source: Savills

→ Tower (11,700 sq m), Kruk at Wroclaw Business Park (7,500 sq m), Credit Suisse expansion at Green Day (4,300 sq m) and Dialog at West House (3,500 sq m).

Rents

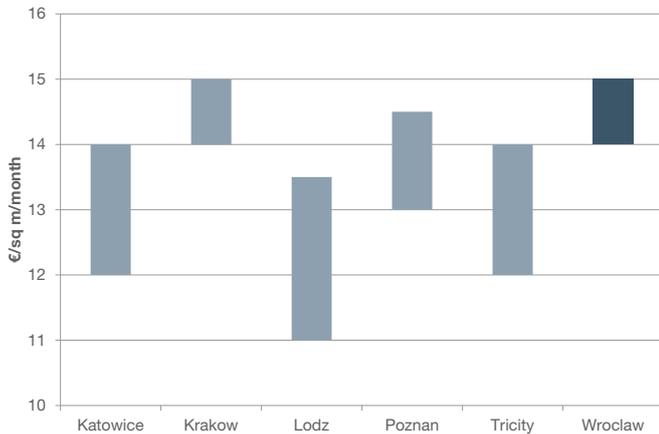
Despite the increase in vacancy to 11.7% prime headline rents have moved very little and are in the range of €14.00–15.00 per sq m/month. Rents in older buildings with poorer specification range from €11.00 to €14.00 per sq m/month. It is common practice in those buildings to quote rents in Polish zloty.

Service charges vary between PLN 12.00 and PLN 16.00/sq m/month. The cost of underground parking space ranges between €50.00 and €80.00 per month.

Prime office rents in Wroclaw are expected to remain stable in 2014, and may decrease in 2015 due to high development activity. ■

GRAPH 5

Headline office rents in major regional cities



Graph source: Savills

OUTLOOK

Vacancy to grow in 2015 due to increased development

Development activity is accelerating and taking into account current development pipeline, modern office stock may increase to ca. 750,000 sq m by the end of 2015, growing by almost 40% over the next two years.

Demand for office space in Wroclaw is strong, which is confirmed by the 7-year average absorption level of ca. 41,000 sq m and a visible post-crisis recovery over the last two years. Moreover, recent statistics regarding expansions is also a good evidence of business development in Wroclaw.

Our analysis indicates that in 2014 new supply will be nearly in balance with projected absorption level. Thus, the average vacancy rate is expected to remain stable at ca. 12%. The development pipeline for 2015 is much higher, which may lead to a significant increase in average vacancy, if all projects are delivered on time.

Competition among office developers is getting tough, allowing potential tenants to choose from a wider offer and negotiate more favourable leasing terms. This constitutes a significant advantage for the fast-developing sector of business services.

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