Q1 2014

REPORT

OFFICE MARKET IN WROCŁAW

Knight Frank

Office Market in Wrocław in Q1 2014

Wrocław is one of the most dynamically developing cities in Poland. Over the last decade it has become one of the largest and most important centres for BPO and R&D services. The good infrastructure, availability of skilled workers, proactive policy of local authorities and positive experiences of investors have propelled the dynamics of many sectors of the local market, including the real estate market.

Major Office Locations in Wrocław

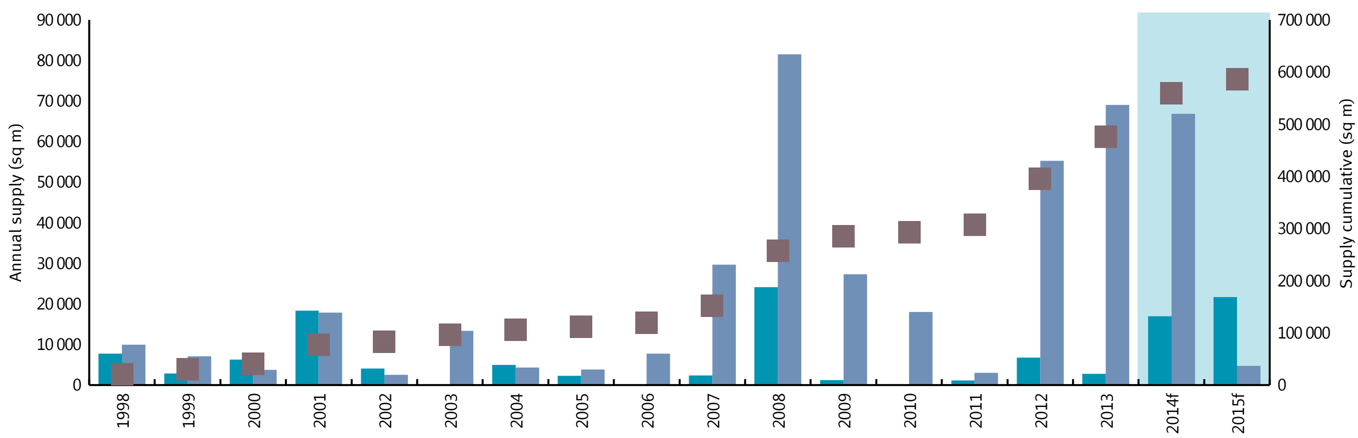
Central Business District | Southern Business Axis | Western Business District

Source: Knight Frank

With total modern office stock estimated at approximately 541,000 sq m, of which some 504,000 sq m is rentable, Wrocław is the second largest regional office market in Poland, after Kraków. There are three main areas of concentration of modern office space in Wrocław; the city center and its immediate surroundings, the Western Business District (the area between Legnicka Street and Strzegomska Street) and the Southern Business Axis (the area along Powstańców Śląskich Street and Karkonoska Street). The remaining office stock is scattered around the city and does not form any visible areas of concentration. While the Central Business District remains the biggest office aggregation in Wrocław, accounting for some 33% of its office stock, it is the non-central Western Business District and Southern Business Axis, that seem to have the biggest development potential (due to land availability).

In Q1 2014 some 18,900 sq m of modern office space has been delivered to the local market in two schemes: Green Day by Skanska and Fabryczna Office Park by Ultranet.

Annual Office Supply in Wrocław



Central | Non central | Supply cumulative

f-forecast based on stock currently under construction

Source: Knight Frank

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Based on development schedules of office schemes currently under construction a further 69,900 sq m is to be delivered in forthcoming quarters of 2014, while some 29,700 sq m of new office space is scheduled for completion in 2015.

Additionally, a number of office schemes have been identified at different stages of the planning process. 11 of them have obtained building permits and their commencement is possible in forthcoming months. However, the future of many projects depends on finding a key tenant for significant share of planned office space. According to Knight Frank's market research over 76,700 sq m may commence in the next 6 months.

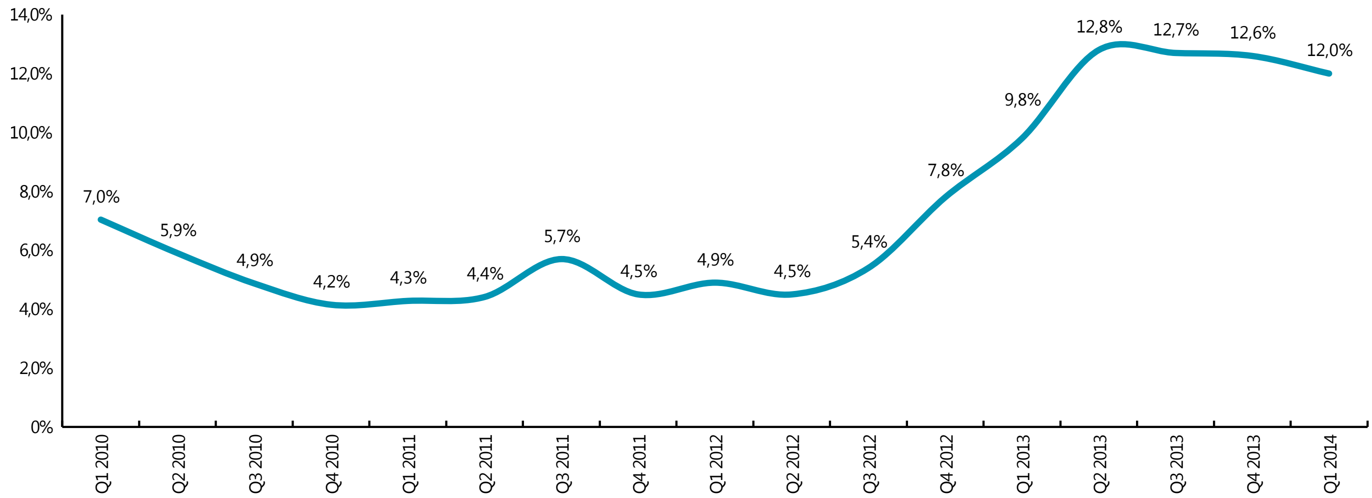
In spite of earlier expectations, Wrocław saw a decrease in vacancy rate, which amounted to 12% in March 2014. It has been a result of a stable tenant activity and the fact, that most of the stock delivered to the market in Q1 2014 was secured with pre-let agreements. Taking a solid development pipeline into consideration, over the coming months the vacancy level is expected to increase gradually as further new schemes are added to the market. However, due to continuing tenant activity, mirrored by the volume of pre-leases (some 25% of new stock planned for 2014 has already been pre-committed), the increase will not be as significant as one might expect based solely on the amount of new developments.

It has been estimated that approximately 12,400 sq m of office space was subject to lease agreements concluded in Wrocław during Q1 2014. The result is some 7% down when compared to the analogical period 2013 but at the same time some 16% up when compared to a previous quarter. Tenant activity in Wrocław office market remain at stable, relatively high level, what reflect the sustained positive market sentiment in Wrocław and allow optimistic forecasts to be made for forthcoming quarters.

Office take-up in Wrocław has been traditionally dominated by companies representing the BPO/SSC sector, R&D companies and financial and IT firms. According to Knight Frank, new agreements accounted for some 62% of the total take-up volume recorded in Q1 2014 while pre-lets made up for some 38%.
In first three months of 2014 the Wrocław office market recorded positive net absorption of approximately 18,100 sq m which gives evidence to expanding tenancy and office absorption still outpacing new supply.

The beginning of 2014 saw stabilisation of asking rental rates though pressure on effective rates increased. Asking rents for office space in A-class buildings ranged

Vacancy rate in Wrocław



Source: Knight Frank

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between EUR 13 and 16/sq m/month, while the level of rents in B-class buildings varied between EUR 10 and 13/sq m/month. Effective rates in some buildings may be EUR 2-3 beneath the asking level. Taking the high availability of office space in completed buildings and substantial new supply under construction into consideration, landlords are expected to be increasingly flexible in lease negotiations leading to a decrease in effective rental levels.

Wrocław's office market provides a wide variety of office space, differing in terms of key parameters. As in other office markets, the decision making process and key selection criteria depend on the profile and the scale of activities of potential tenants. In most cases, the price is the crucial criterion although location also plays an important role. Other issues such as modern technological solutions, management systems, developer's experience and adherence to ecological standards have become increasingly important. Aware of their own needs, tenants actively cooperate with the developers to customise office space so that it is optimal in terms of space division (open space floor or other solutions), deployment of workstations, density and location of equipment and social premises etc.

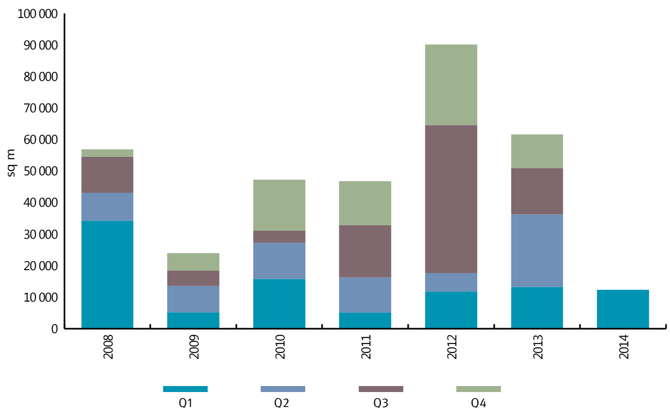
Modern office buildings in Wrocław offer the following as standard:

- Raised floors,
- Suspended ceilings,
- Air-conditioning and ventilation,
- Structural cabling,
- Electric cabling,
- Modern lighting solutions,
- BMS,
- Carpeting,
- Partition walls according to tenant's needs.

In 2012, Wrocław's Green Towers complex by Skanska, the first office building in Poland to have been LEED certified with the highest, "Platinum" rating, was officially opened. Currently, other office developers are following Skanska's lead and are implementing environmental policies in the development process. Green certification has become an increasingly important issue not only for potential tenants but also for potential investors.

The modern office stock in Wrocław includes several A-class buildings as well as B and B+ stock. Encouragingly, most schemes in the development pipeline are A-class standard so it can be expected that the quality of Wrocław office stock will gradually increase.

Take-up in Wrocław



Source: Knight Frank

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