



Office Market in Wrocław in Q3 2013

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.

With total modern office stock estimated at approximately 507.000 sq m, of which some 470.000 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 34% 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).

Map: Major Office Locations in Wrocław

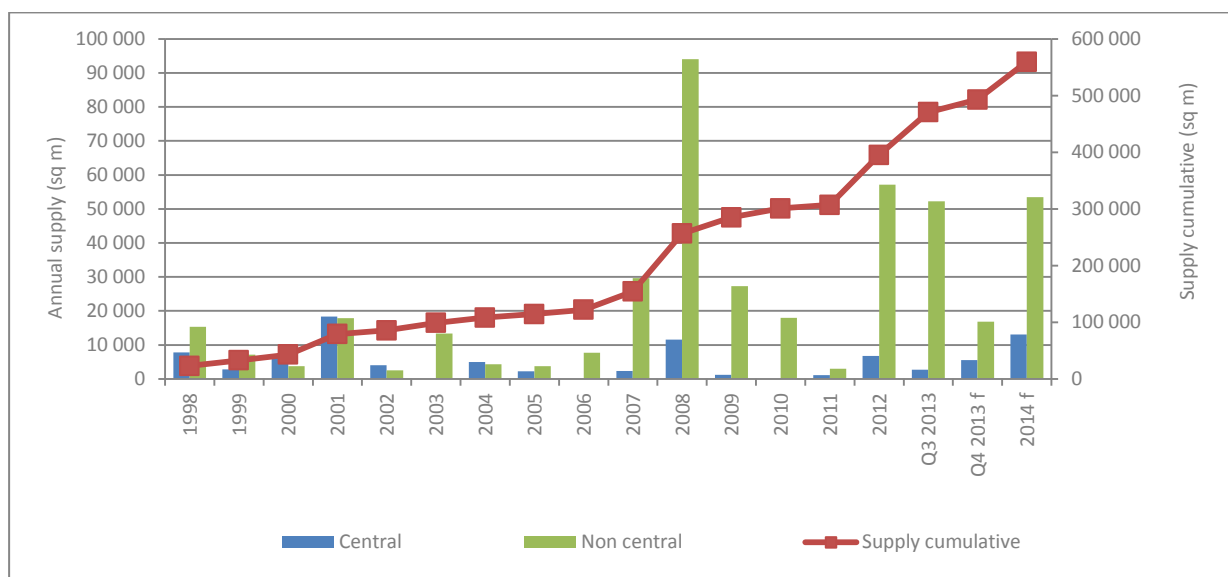


Source: Knight Frank



Since January 2013 some 55,000 sq m of modern office space has been delivered to the local market. Based on development schedules of office schemes currently under construction a further 22,300 sq m is to be delivered by the end of this year, while some 66,500 sq m of new office is scheduled for completion in 2014.

Graph 1: Annual Office Supply in Wrocław (1998-Q3 2013)



f-forecast based on stock currently under construction

Source: Knight Frank

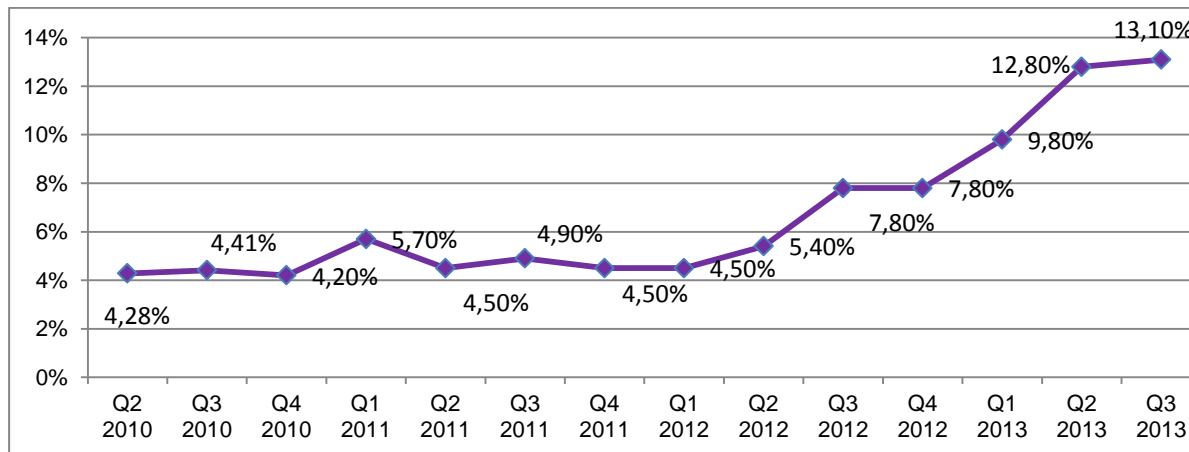
Additionally, a number of office schemes have been identified at different stages of the planning process, including over 160,000 sq m with a building permit (which includes multi-stage schemes). However, in view of the current market situation, the entire economic situation plus the restricted availability bank funding, an assumption can be made that only well prepared projects will enter construction phase. According to Knight Frank's market research some 70,000 sq m within 7 office schemes may commence in the next 6-9 months.

Significant supply dynamics noted in Wrocław over recent years have brought about a gradual increase in vacancy, which in September 2013 amounted to some 13.1%. The significant availability of space in Wrocław has resulted mainly from the delivery of new office buildings in the first three quarters of 2013 that were not fully rented at completion. 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 significant volume of pre-leases (over 50% of new stock planned for Q4 2013 has already



been pre-committed), the increase will not be as significant as one might expect based solely on the amount of new developments.

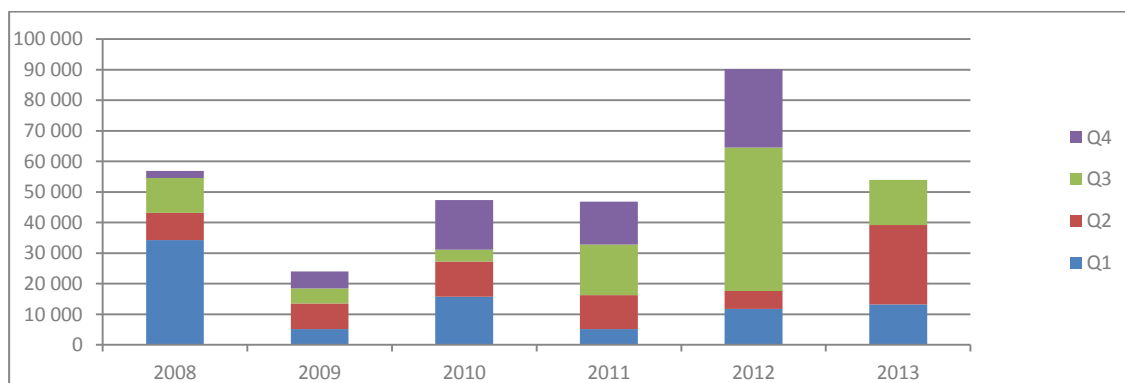
Graph 2: Vacancy Rate in Wrocław



Source: Knight Frank

It has been estimated that approximately 54,000 sq m of office space was subject to lease agreements concluded in Wrocław between January and September 2013. This accounts for a 16% decrease in tenant activity when compared to the respective period of 2012. However it should be noted that 2012 was unprecedented in terms of take-up volume. Furthermore, annual take-up in Wrocław has not exceeded 56,000 sq m. In this context, the current take-up figures reflect the sustained positive market sentiment in Wrocław and allow optimistic forecasts to be made for 2014.

Graph 3: Take-up in Wrocław by Quarter



Source: Knight Frank

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, pre-let agreements accounted



for some 34% of the total take-up volume recorded in the first three quarters of 2013. Renewals accounted for some 22% of the rented stock, sub-leases had an 8% share while expansions accounted for 2% of the take-up. In the first three quarters of 2013 the Wrocław office market recorded positive net absorption of approximately 24,300 sq m which gives evidence to expanding tenancy and office absorption still outpacing new supply.

Q3 2013 saw stabilisation of rental rates. Asking rents for office space in A-class buildings ranged between EUR 13 and 16 /sq m/month, while the level of rents in B-class buildings varied between EUR 12 and 13.5 /sq m/month. Transactional rents varied between EUR 10-16/sq/month. Taking the substantial new supply under construction into consideration, landlords are expected to be increasingly flexible in lease negotiations leading to a decrease in transactional and effective rental levels. This creates an advantageous situation for tenants considering Wrocław as a new location as it ensures a wide variety of good quality office space on favourable financial terms.

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.