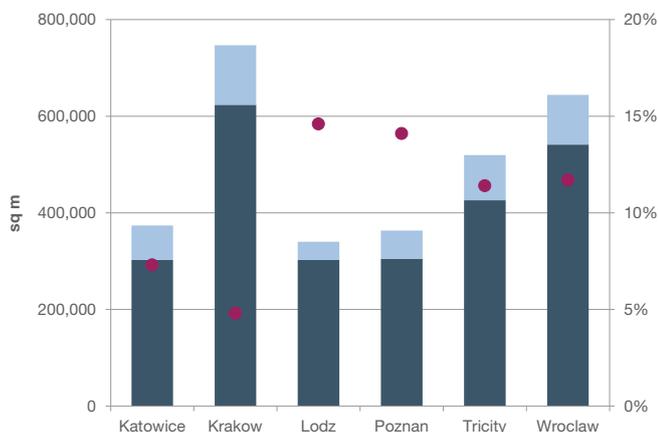


Market in Minutes

Kraków office market

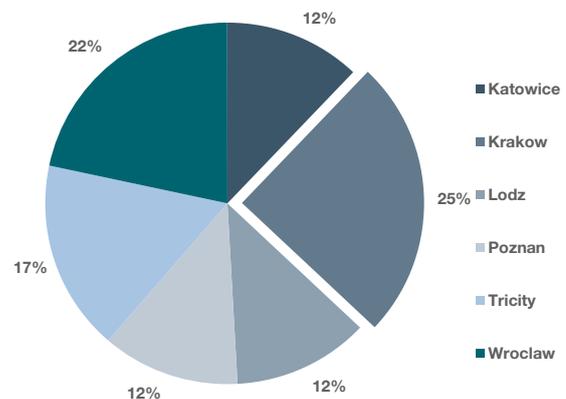
March 2014

GRAPH 1
Stock, under construction and vacancy



Graph source: Savills

GRAPH 2
Office stock in major regional markets by city



Graph source: Savills

SUMMARY

Overview

- At the end of 2013 the office stock in Krakow amounted to ca. 624,000 sq m, which was the highest result among regional cities in Poland.
- Only 32,300 sq m of new office space was delivered in 2013.
- Development activity is increasing, ca. 123,000 sq m of offices is under construction, of which 86,500 sq m is scheduled for this year.
- The average vacancy rate in Krakow is the lowest among major regional cities in Poland and at the end of 2013 was 4.8%.
- Demand for office space in Krakow remains strong, the volume of lettings exceeded 90,000 sq m in 2013, of which ca. 40% were pre-lets.
- Limited availability of office space in existing buildings resulted in a relatively low net absorption, significantly below its long-term average.
- Prime office rents are €14.00-15.00 per sq m/month and may increase in 2014.

“Kraków is the leading regional office market in terms of office stock benefitting from low vacancy and stable demand driven by growing sectors of business services and new technologies.”

Tomasz Buras, Savills Office Agency

→ **Kraków**

Krakow is one of the most recognizable Polish cities not only for its history and culture but also as a knowledge and business centre. There are over 758,300 people living in the city, which makes it the second most populated city in Poland.

Last year the city saw a record number of visitors with 9.25 million people coming to the city (8.95 million in 2012).

Krakow is the second largest academic centre in Poland with 22 higher education centres and almost 182,000 students. The number of graduates was close to 50,000 in 2012.

In June 2013 Krakow was ranked as the best location for modern services in CEE in the Tholons' Top 100 Outsourcing Destinations and received an ABSL Recognition Award for outstanding performance in growth of the service sector.

There are over 121,200 business entities registered in Krakow (160 per 1,000 people). Approximately 80 international companies providing different kinds of business services (finance and accounting, business analytics, HR, research and development and IT) employ 30,000 people, of which the majority are graduates from Krakow's universities.

General Overview

Krakow has held position of largest regional office market in Poland in terms of the modern office stock since

“New supply was low last year, but development activity is growing and currently there is over 120,000 sq m of office space under construction, the highest volume among major regional cities.”

Tomasz Subocz, Savills Tenant Representation

2002. At the end of 2013 the volume of office space in the city exceeded 623,700 sq m, which is ca. 15% more than the office stock in Wroclaw, the second largest office market in Poland and over twice higher than the existing stock in such markets as Poznan, Lodz and Katowice.

Due to its historic character and low availability of undeveloped land, office supply in the core centre of Krakow is rather limited and concentrated partly in refurbished tenement houses.

Office concentrations are along the main roads: al. Armii Krajowej (north-western part of Krakow); al. Jana Pawła II and ul. Lublanska (north-east of the centre); ul. Puzkarska, Kamienskigo and Dekerta (to the south of the city) and ul. Bobrzynskiego (south-western part of the city).

The planning strategy for the city is focused on effective use of the city area within its current boundaries, but no high-rise development is planned

in both commercial and residential sectors.

New Supply

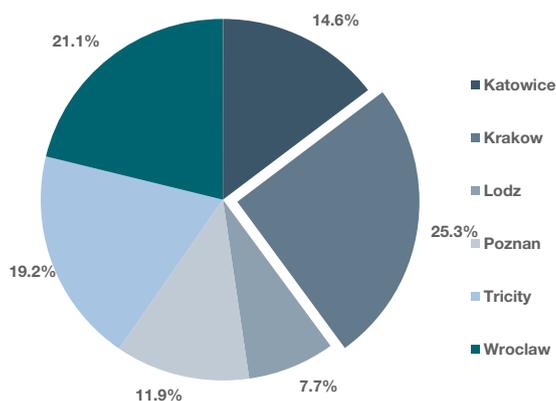
New supply in 2013 amounted to ca. 32,300 sq m, which was relatively low compared to the 10-year annual average of 47,700 sq m.

The largest development last year was the third phase of Quattro Business Park by Buma (12,200 sq m). Other major developments include: Bonarka 4 Business Building D by TriGranit (8,700 sq m) and the first phase of Nautilus by ABP Investments (6,000 sq m).

Office development activity in Krakow is increasing and at the end of 2013 there was ca. 123,100 sq m of new offices under construction, of which 86,500 sq m is scheduled for 2014. A further 57,200 sq m is expected to be delivered in 2015. When completed, the total modern office stock in Krakow will exceed 750,000 sq m.

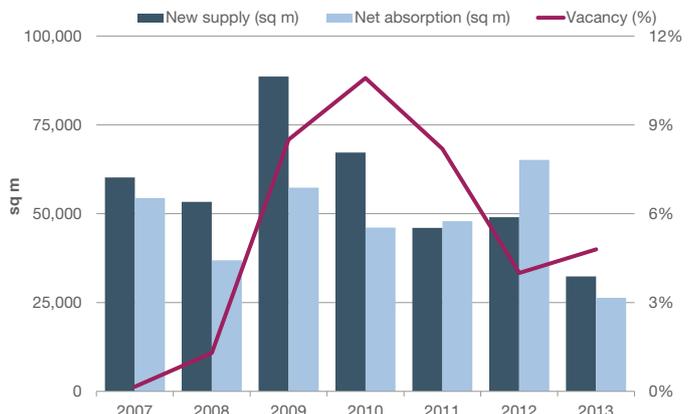
The largest developments this year

GRAPH 3 **Developments by city**



Graph source: Savills

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



Graph source: Savills

include: Kapelanka 42 by Skanska (28,400 sq m), Enterprise Park C by Avestus (13,600 sq m) and Amsterdam office building (Orange Office Park) by East-West Development (11,200 sq m).

the highest number of employees in BPO (business process outsourcing), SSC (shared services), IT and R&D (research and development) sectors. Major employers in these sectors include: Capgemini, IBM, Shell, Nokia

“The limited availability of offices in existing buildings resulted in a relatively low net absorption of ca. 26,300 sq m, almost twice lower than its average from the previous five years.”

Mark Freeman, Savills Valuation & Consultancy

Availability

Availability of office space in existing buildings is very low. At the end of 2013 the average vacancy rate amounted to 4.8% reflecting ca. 30,200 sq m of vacant offices. Only two office buildings offered units of above 2,000 sq m. Tenants looking for larger office space have to consider buildings that are under construction.

We expect that the vacancy rate will remain low, despite increased development activity. Within the buildings that are to be delivered in 2014, 30% of the office space is already preleased.

Demand

Availability of qualified workforce is a major driver of demand for office space in Krakow. The city is the largest centre of outsourcing among Polish regional cities, with

Siemens Network, State Street, UBS, HSBC, Cisco and Sabre.

The average total letting activity over the last three years was nearly 100,000 sq m per annum, significantly more than in other regional cities in Poland and ca.30% more than in the second most active regional market - Wroclaw. Almost 40% of total gross take-up was in the form of pre-lease agreements.

The three biggest leases concluded last year were the renewal of the lease with Capgemini in Quattro Business Park for 9,600 sq m and pre-lease agreements of 8,500 sq m by Lufthansa in Bonarka 4 Business and 7,000 sq m by Cisco in Enterprise Park.

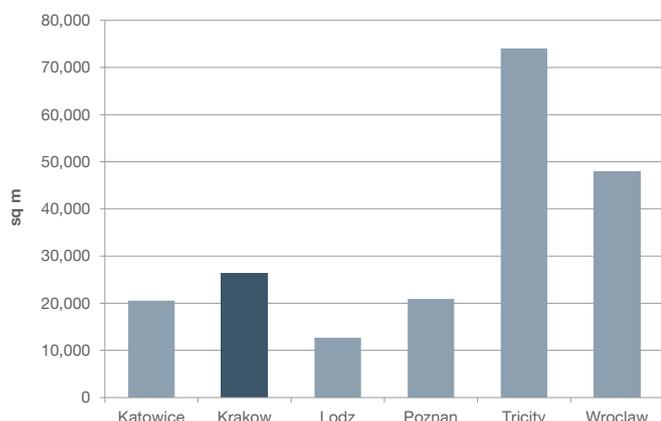
Net absorption in 2013 was low (26,300 sq m), mostly because

TABLE 1 **Kraków - key facts**

Population (Dec 2012)	758,334
Unemployment (Dec 2013)	5.9%
Average gross salary (2012)	PLN 3,878 per month
Number of students (2012)	181,924
Number of graduates (2012)	48,518
Higher education institutions	22
International Airport	Kraków Airport Balice
Number of passengers (2012)	3,409,000 +13.8% y-o-y
Selected BPO/SSC/IT/R&D companies	Capgemini, IBM, Nokia Siemens Network, Shell, State Street, Sabre
Modern office stock (Q4 2013)	623,700 sq m
Under construction (Q4 2013)	123,100 sq m
Available office space (Q4 2013)	30,200 sq m
Vacancy rate (Q4 2013)	4.8%
Absorption (2013)	26,300 sq m
Prime headline office rents (Q4 2013)	€14.00-15.00 per sq m/month

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
Amsterdam - Orange Office Park	East-West Development	11,200	Q1 14
Alma Tower	UBM	10,000	Q2 14
Kapelanka 42	Skanska	28,400	Q3 14
Enterprise Park C	Avestus	13,600	Q3 14
Avia	GD&K / CA Immo	10,800	Q4 14
B4B E	TriGranit	6,500	Q4 15
CB Opolska A	Echo Investment	19,200	Q4 15
Quattro Business Park IV	Buma	12,800	Q4 15

Source: Savills

→ of the limited supply. Last year's absorption was much higher and reached 65,200 sq m.

Rents

Prime headline office rents are €14.00–15.00 per sq m/month. In B-class office buildings they vary between €10.00-14.00 per sq m/month.

As the availability of office space is very limited in the city and is expected to remain low to year end, rents are likely to increase in the short term.

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

OUTLOOK

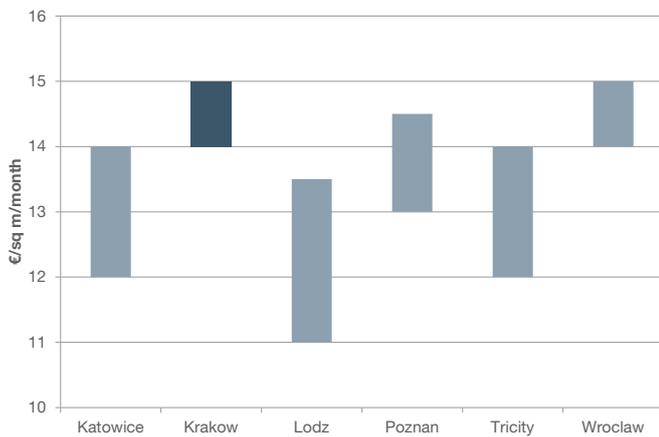
The inflow of investment capital and improvements in public communication is expected to further boost sustainable office market growth.

Krakow - the city of culture, education and tourism, over the last 10 years became one of the top three office markets in Poland, just behind Warsaw and slightly ahead of Wrocław.

In line with the growing size of the market, it becomes less sensitive to risks coming from increased new supply as well as more absorbent in terms of demand coming from those companies that are already present and those that are attracted to the city. The result is that the city attracts not only new office tenants, but also investment capital, both domestic and international.

City authorities are now trying to further increase the potential of the city, by supporting the education sector, in particular hi-tech industries, but also are planning to improve public communication within the city. Considered scenarios include construction of an underground line or monorail train.

GRAPH 5 **Prime headline office rents in major regional cities**



Graph source: Savills

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