



Office market in Tricity

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Pomerania Development Agency Co.

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Gdańsk, 2008

1. Current macroeconomic reality

The Polish economy has been visibly and swiftly developing for the recent five years. The annual GDP growth in the period has averaged 5%. Last year the GDP growth was estimated at 6.5% when compared to 6.1% in 2006.

This substantial economic growth ensued from equally dynamic increase in the industrial output which rose by 9.7% in 2007. Importantly enough, a steep drop in unemployment has been recorded, from 20% in 2002 to 11.4% in 2007. The economic boom and intense investments contribute to increased employment. The growth, combined with the Polish leaving the country to work abroad, mostly for the states of the European Union, has reduced the unemployment rate at home. At the same time, a steep salaries growth rate has been reported.

The increase in pay growth rate and the mounting inflation pressure have resulted in interest rate increase (several rises introduced in the recent months) by the Monetary Policy Council (MPC). The Council may proceed with further similar decisions if the inflation does not level out (the recent growth rate is reported at about 4% (the current month vs. the same month last year)¹.

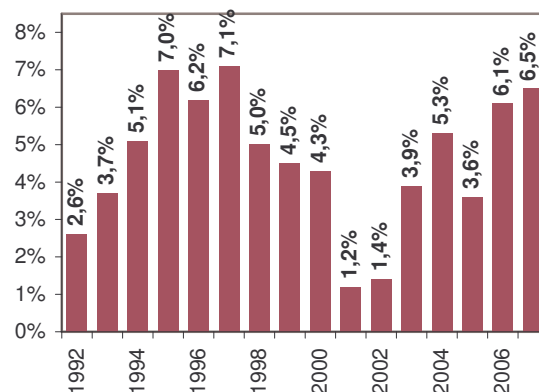
Nothing like that happened since 2004, but still without the appreciation of the zloty the scenario would be even worse. By comparison, in the Baltic countries, which follow a strict Euro exchange regime, the prices are growing at twice the Polish rate. Latvia, with its 14% inflation last year, is „in the lead”.

The diminishing growth in exports can be the source of further concern. One of the underlying factors is deteriorating competitiveness of the Polish products in the world markets. The data compiled by the Polish Confederation of Private Employers ‘Lewiatan’ reveals that medium-size and large enterprises are the best exporters. As many as half the businesses in the group have foreign equity involved. These enterprises find it easier to mitigate

¹ For comparison, the MPC’s target is to keep the inflation at 2.5% plus / minus 1 percent point a year.

the currency risk, as within the group they can benefit from cheaper access to raw materials.

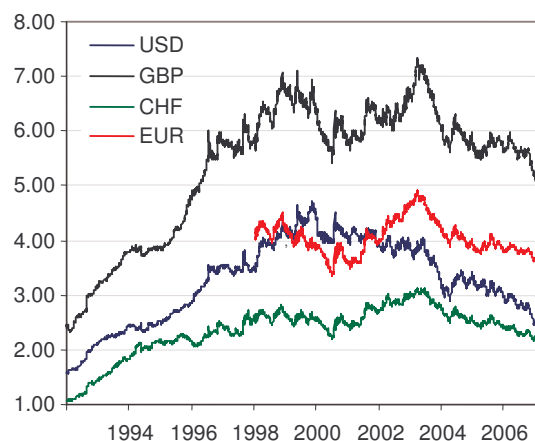
GDP growth rate in 1992-2007.



Source: Main Statistical Office.

The consolidating position of Polish currency has unfavourable effect on export sales. A few years ago the Polish zloty was considered a currency of limited reliability. However, the strengthening PLN against Euro, US dollar, or British pound has pushed the times of the weak zloty into history.

The Polish zloty vs. the dollar, euro, franc and pound from 1993 to March 2008.



Source: NBP.

Even though the strong domestic currency is not beneficial to all (e.g. the earlier-mentioned exporters), it proves Poland has not wasted the recent 18 years (especially if we compare the zloty to other currencies). Poland’s accession to the European Union was a milestone in the position of the zloty.

The Euro and other currencies floating against Polish Zloty since Poland's accession to the European Union.

Country	Currency	Zloty's strength
United States	Dollar	-38.8%
United Kingdom	Pound	-31.3%
Switzerland	Crown	-27.5%
Sweden	Franc	-26.1%
Euro Zone	Euro	-23.7%
Denmark	Crown	-23.7%
Slovakia	Crown	-8.5%
Czech Republic	Crown	-6.3%

Source: own calculations based on the NBP data.

2008 is witnessing the continuation of the key macroeconomic indicators exhibiting very positive changes. Strong domestic demand continues to be the main engine of the economy. The increasing growth rate in industrial output (especially household equipment, furniture, and cars) results from the purchasing demand created through expansion of mortgage lending first launched two years ago. The demand is also stimulated by relatively stable prices of household goods and furniture. The growth rate in this price group last year was three times lower than in food product prices.

2. Economic standing of the Pomeranian Voivodship

Economic growth is also visible in the Pomeranian Voivodship, and particularly it's the main centre – the Tri-City. Businesses increased their revenue by 5% (on the year-to-year basis). Their aggregate gross financial result added up to PLN 5.2 billion and was 31.8% higher than the level achieved for the same period in 2006. The net financial result totalled ca. PLN 5.4 billion (representing a 34.8% increase).

The year 2007 was marked with a clear growth in investments undertaken by the Pomeranian businesses. The highest growth rate was reported in machines and equipment sold, metal goods, clothing, and furrier products. Production in construction and assembly industries rose by 42.6% when compared to the previous year's level. Good economic performance of enterprises entails an increase in employment. The number of jobs has gone up by 5.2% (year-to-year). The unemployment rate has gone down below 11% in general, and dropped below the natural threshold of 5% in the Tri-City. The average gross monthly pay in the enterprises sector rose by 12.7% reaching PLN 3 066.56 in February 2008. Given the figures above, the Pomeranian economy can be assessed as developing at a satisfying rate.

... and its impact on the office space market

The dynamic economic growth of the country and the inflow of direct investments have a substantial impact on the office space market. The same is observed in the Tri-City market. The growing demand for top standard space and the still insufficient supply of this type of real property gives good prospects for the property market.

Foreign investors opening their regional offices, also in the Tri-City, represent a high percent in the tenant population. Most of them are looking for large spaces, frequently over 1 000 m², and are interested in high standard space (class A).

It is very characteristic for the modern office space market to use 'pre-let' contract, i.e. space reservation before the building is handed over for use. With the high growth rate in tenancy one should expect that the new projects still under construction will have as much as 100% pre-let coverage. The high demand, combined with a shortage of modern office space, indicate one can expect the rentals to go up (with the current rates in the Tri-City ranging from EUR 15 to 18 / m²). The dynamic development in the office space market can gain further strength due to the preparations to the EURO 2012 football championships. The huge infrastructural and telecommunication projects may attract many new investors willing to erect new buildings or modernise the existing facilities. New enterprises coming in will boost the demand for new offices.

Overview of office space available in the Tri-City

City	Location	Building class
Gdańsk		
Allcon Centrum Słowackiego [Allcon Słowackiego Centre]	Słowackiego St.	B+
Apeks Jaśkówka	Jaśkowa Dolina St.	B+
Arkońska Business Park	Arkońska St.	A
Budynki Biurowe Kartuska [Kartuska Office Building]	Kartuska St.	B+
Centrum Biurowe Gnilna [Gnilna Office Centre]	Gnilna St.	B+
Centrum Biznesu (Centromor) [Centromor Business Centre]	Okopowa St.	B+
Centrum Biznesu (Zieleniak) [Greenhouse Business Centre]	Wały Piastowskie St.	B
Centrum Handlowe Manhattan [Manhattan Shopping Centre]	Grunwaldzka St.	B+
Centrum Dmowskiego [Dmowskiego Centre]	Dmowskiego St.	A
Haxo	Strzelecka St.	B+
Hossa Company House	Grunwaldzka St.	B+
Organika Trade	Heweliusza St.	B
Sadowa Business Park	Sadowa St.	B+
Torus G413	Grunwaldzka St.	A
Torus G417	Grunwaldzka St.	B+
TPS Otwarta Przestrzeń B1 [TPS Open Space B1]	Biała St.	B+
Vigo	Skarżyńskiego St.	B+
Sopot		
Ineksplo	Reja St.	B
Gdynia		
Alfa Plaza	Batorego / 3 Maja St.	A
Baltic Business Center	Śląska St.	B+
Cech w Gdyni [Guilds in Gdynia]	Batorego / 3 Maja St.	B
Centrum Biurowe [Office Centre]	Władysława IV St.	B+
Chipolbrok	Śląska St.	A
City Arcade	Śląska St.	A
Gdyńskie Centrum Biznesu [Gdynia Business Centre]	Kaszubski Square	B
Łużycka Office Park *	Łużycka St.	A
Centrum Kwiatkowskiego [Kwiatkowski Centre]	10 Lutego St.	A
TPS Otwarta Przestrzeń C133 [TPS Open Space C133]	Chwaszczyńska St.	B
TPS Otwarta Przestrzeń K 12 [TPS Open Space K 12]	Krzywoustego St.	B
Morska Agencja Gdynia [Maritime Agency Gdynia]	Armii Krajowej St.	B

* One building available at present.

Source: own study.

3. Office space in the Tri-City

A substantial growth of interest in office space is forecast in the Tri-City for the nearest 2-3 years. The demand will trigger the supply generated by investments such as the Arkońska Business Park in Gdańsk or Łużycka Office Park in Gdynia to mention just a few.

The office space rental price is the sum of three components:

- the rate;
- the operating costs;
- the utilities;

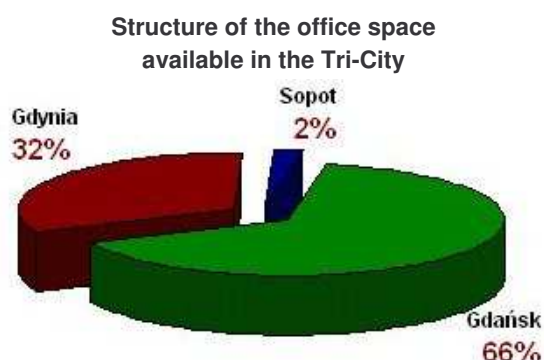
While the first two components (the rental rate and operating costs) can be anticipated, the utilities are determined by both other factors determining the total rental expense, and the type of the business activities performed.

The average office space rental price in the Tri-City ranges from EUR 15 to EUR 18 per square metre a month. Based on the figures given in this report one arrives at the following average values: in Gdańsk – EUR 15.6 / m² (operating costs – EUR 3.6 / m²); in Gdynia – EUR 15.1 EUR / m² and the operating costs of EUR 5.7 / m². The average rental and operating costs of office space in Sopot stands at the average level reported for Gdańsk and Gdynia.



Source: own study.

The total available office space in the Tri-City (based on the data compiled by the authors) adds up to 267 325 m². The area available in Gdańsk is 172 330 m², which represents 64% of the Tri-City total, Gdynia has 89 995 m² (34%) to offer, and Sopot 5 000 m² (2%).



Source: own study.

An analysis of the available office space for 7 April 2008 reveals that Gdańsk has 97 195 m² to offer (66% of the total office space in the Tri-City), Gdynia accounts for 47 625 m² (32%), and Sopot for the remaining floor area – 3 500 m².

Out of the total office space offered in the Tri-City 3.1% account for unoccupied space (the so-called vacancy rate). In Gdańsk alone the rate is 2.8% (4 683 m²), in Gdynia 3.1% (2 121 m²), and in Sopot 3.5% (175 m²).

4. Investments planned in the Tri-City

Increased demand

Up to mid-2006 the Tri-City office space market was at a standstill. In 2007 the situation began to change. Increased demand for office space spurred the investors to proceed with the erection of two prime facilities: at Arkońska Street in Gdańsk (Arkońska Business Park), and at Łużycka Street in Gdynia (Łużycka Office Park).

The factors contributing to of the growing demand for office space in the Tri-City are manifold. The major factors are:

- development of the road infrastructure, i.e. the construction of the A1 motorway which is to link the Tri-City agglomeration with central and southern Poland;

- development of the Tri-City road infrastructure (construction of the Kwiatkowski Flyover, the Project of the Sucharski route and the southern ring road around the Tri-City);
- growing role of the Gdynia and Gdańsk ports – increased volumes of the cargo handled, especially in container terminals;
- planned implementation of the ‘Maritime Highway Karlskrona – Gdynia’ project;
- planned metropolitan railway line;
- demand generated by businesses dealing in the food industry, logistics, and chain stores;
- organisation of the EURO 2012 European Football Championship by Gdańsk;
- growing interest in the region among foreign investors due to the existence of well-educated staff and proximity of research centres.

According to DTZ Research, with the modern office space supplied to the market in regional cities the available space will double over the next 3 years.

The rentals in the Tri-City have gone up because of the very low margin of vacancies, and too low

supply-demand ratio. The situation can only change with new office space put in the market.

The Uphagen Centre in Gdańsk

No visualisations of the building are available as yet.

Class: A

Location: Gdańsk, Uphagena St.

Maximum floor area: 13 000 m².

Investor: Polnord SA.

The Uphagen Centre is to be erected in the heart of the Gdansk Wrzeszcz district, right next to the main traffic line across the Tri-City and one of the major roads linking the residential estates of Lower Wrzeszcz on the one hand with the estates of Morena and Suchanino on the other.

The investment is a joint project of Polnord and individual investors. The plot of 3 232 m² will hold a class 'A' office with the total area of 13 000 m². The investor is considering designing top floors as luxury suites.

Euro Office Park

Class: B+

Location: Gdańsk, Armii Krajowej St.
(W-E Route)

The complex with the total area of 12 500 m² of office space. It is made up of three buildings. The design allocates parking space (basement garages and ground-level sites) for 425 vehicles. The investor to the project is Euro-Styl, and the completion date is set at the first three months of the year 2010.

Herbal Park

(previously Hanza Business Park project)

Location: Gdańsk, crossing of Wosia-Budzysza and Sucharskiego Streets

Elektromontaż Gdańsk was one of the parties involved in the design development. The initial version of the project, then known as the 'Hanza Park', envisaged the construction of an office complex composed of three tall office towers (ca 7 000 m² each) and five five-storey blocks in the immediate vicinity of the Gdańsk Port Authorities (at the exit from the E7 road).

The ground floor is planned to hold conference halls, bank outlets, a cafeteria with a winter garden, and boutiques. The office section is arranged in 4 office modules of 120-160 m² on each storey, open to the arrangement of any desired configuration.

That project is, however, no longer valid, hence works on the new concept, the Herbal Park complex, are in progress. More detail will be known by the end of 2008.

Tryton



Photo: Ober-Haus

Class A

Location: Gdańsk, Podwale Grodzkie St.

Tryton is the name of a complex of three office blocks with the total area of 23 000 m². The complex will be located in the immediate vicinity of the Gdańsk Shipyard and the main traffic arteries of Gdańsk - Podwale Grodzkie St. It is planned to erect 9 storeys building with 12 lifts linking the floors. The envisaged underground car park is to be capable of taking in 476 cars. The Investor (Echo Investment) has already paid the trifling sum of PLN 21 million for the perpetual lease of the land designated for the blocks. The opening price for the plot (7 000 m²) amounted to PLN 10.6 million. Ober-Haus Real Estate provides property management services for Tryton.

Development of the Young City in Gdańsk

Location: Gdańsk, Gdańsk Shipyard estate

Planned office space: ca. 15 000 m².

Investor: TK Development.

Transatlantyk

Location: Gdynia, Kaszubski Sq.

This multifunctional building will offer about 2 000 m² of office space. The investor on the project is AB Inwestor, and the completion is scheduled at the close of 2009.

Chipolbrok Business Centre in Gdynia

Location: Gdynia, Podolska St.

A complex of two separate office buildings linked with a passage. The project is based on two variants of the A and B buildings. The differences between the designs lie in different outermost boundaries, the scale, spatial forms, and architectural expression. Both variants, however, assume the erection of two buildings forming a single complex:

- A = 23 164 m² and B = 30 049 m²,
- A = 18 065 m² and B = 14 620 m².

Łużycka Office Park



Photo: Investor's materials

Location: Gdynia, Łużycka St.

A complex of office buildings class A, five storeys and 4 350 m² each. The total area will add up to ca. 42 000 m², including 33 500 m² of office space. The estate is to take in 640 cars parked (in the basement and outside the buildings).

Arkońska Business Park



Photo: Investor's materials

Location: Gdańsk, Arkońska St.

The construction of a class A office park made up of 5 buildings, 5-6.8 thousand square metres each. The total office space is estimated to exceed 25 000 m². The plans further envisage erection of a hotel building and auxiliary facilities such as conference halls, a restaurant, squash hall, gym, sauna, and fitness rooms.

The „Inter-rail” in Gdynia

One hundred hectares of free (but equipped with infrastructure) land on the verge of the city Centre and port, commonly nicknamed the „Inter-rail”. The estate is enclosed in between Janka Wiśniewskiego St., Jana z Kolna St., Wendy St., Chrzanowskiego

St., and Polska St. The already outdated railway track system in the area calls for total modernisation. The site is designated for a modern, multifunctional district where the port and downtown functions will coincide and complement each other. The city will dominate especially in the southern section of the „Inter-rail”, which - thanks to steps taken by the City - has already been excluded from the administrative area of the Gdynia port.

Noteworthy, apart from the investments listed above, other projects worth attention are planned primarily in the neighbourhood of the Gdańsk districts of Wrzeszcz and Oliwa where the metropolitan railway line is envisaged. Their details and time schedule are yet to be revealed.

This report was prepared by:

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