

Report



Office market in Tricity

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Pomerania Development Agency Co.



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Introduction

A number of micro and macro economic factors influence office space market, hence a detailed analyse of economic situation in Poland makes the first part of the report. Dynamic changes in world's economy, including Poland, find their reflection on modern office space market in Tricity, which has been described in the second part of the report.

The following report has been prepared by Pomerania Development Agency Co. (Investor Assistance Centre and Pomeranian Economic Portal madeinpomorskie.pl).

We invite you to reading. ■

Contents

Macroeconomic overview	2
Office space market	4
Chosen projects scheduled to be delivered between 2009 – 2011	7

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Photo: Investor's materials

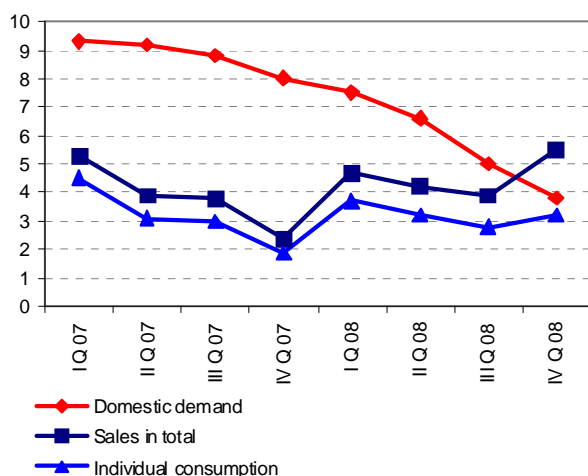
Current macroeconomic reality

Economic growth?

According to initial prognosis by Central Statistical Office Gross Domestic Product (GDP) in Poland in 2008 was by 4,9% higher than in 2007. What will be GDP value in 2009? It is hard to answer to this question during economic crisis but one thing is certain – it will be much lower than in 2008.

It is worth pointing out that on quarterly basis polish GDP started to fall even before world's economic crisis (III-IV quarters of 2008). Starting from II quarter of 2007 polish GDP has been falling systematically, from 6,5% to 2,9% in IV quarter of 2008.

Chart 1.
Structure of chosen GDP categories.



Source: NBP and IMF.

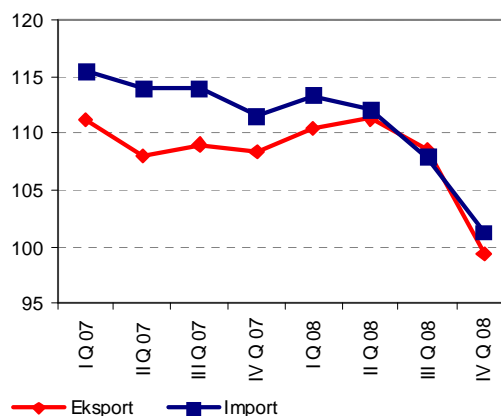
Analysing categories influencing economic growth dynamics rapid fall of domestic demand can be observed. The crises hastened declining tendency in the last 2 quarters of the previous year. Although in 2008 polish economy had dynamic GDP growth foreign direct investments (regarded as one of the first symptoms of crisis) fell by 33% (from 16,7 billion EUR in 2007 to 11 billion EUR in 2008).

Foreign Trade

Key trade partners for Pomerania Voivodeship are: Germany, Sweden and Norway.

In April 2009, in comparison to January, value of export to Germany rose by 17%, and to Sweden by 2,2%. These are good news considering the fact of negative data from previous periods. Only the fall of export to Norway by 60% may worry, as Norway has occupied the first place for a long time. National Bank of Poland revealed that in the beginning of 2009 import fall was by 1,4% higher than export fall. In the coming months, taking under consideration this tendency, the following indexes should be closer investigated: polish zloty exchange rate, investments and domestic demand fall rate.

Chart 2.
Export and import dynamics.



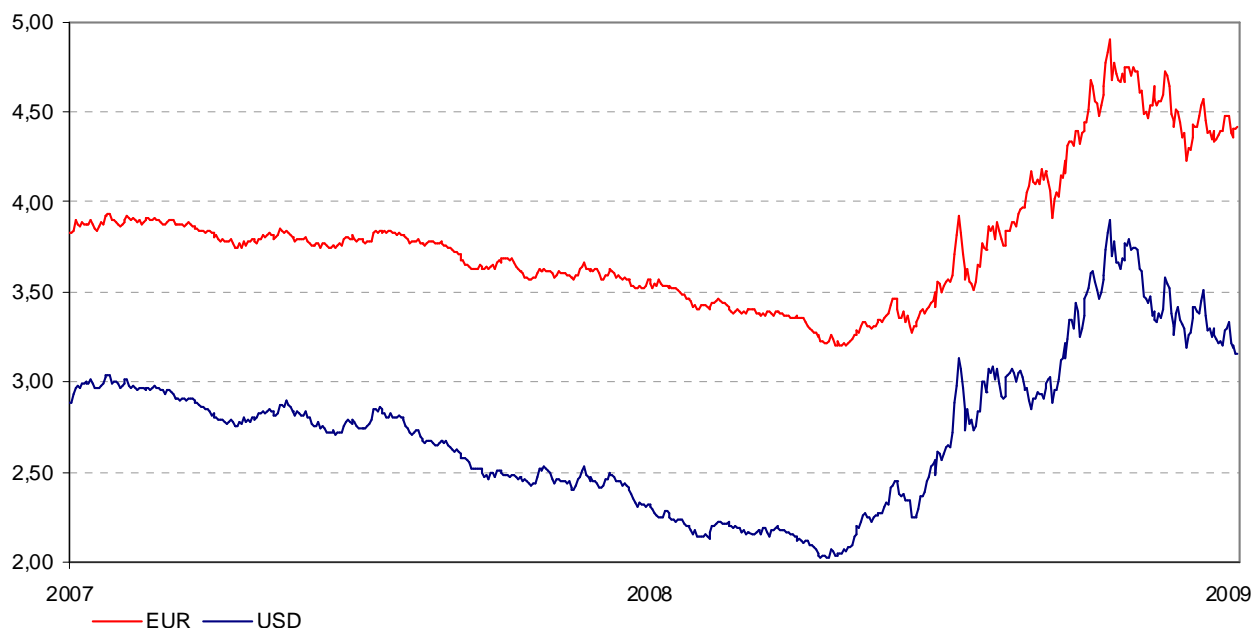
Source: Central Statistical Office.

Changes in export and import dynamics depend mostly on polish zloty average exchange rate. From July 2008 to May 2009 polish zloty weakened against Euro by 38% and against US dollar by 56%. ▶

Chart 3.

EUR and USD vs. PLN (NBP average Exchange rates).

(January 2007 - May 2009).



Source: National Bank of Poland.

Polish zloty depreciation made import less profitable than in the middle of 2008. On the other hand this situation is convenient for polish exporters however at this moment key for them is the scale of weakening of demand for polish export.

State budget situation

The results of polish state budget in the 1st quarter of 2009 indicate significant deterioration of the fiscal situation of polish economy. World's economic crisis has large impact on state budget balance, which in the end of March was by 12 billion PLN higher than the year before.

State budget for 2009 estimates that revenues will rise faster than expenses (respectively by 19,3% and 15,3% in relation to 2008). However, after first 2 months of 2009, these rates were Quite the opposite: state budget revenues rose by 8% compared to 20% rise of expenses.

Unfavourable changes in polish economy forced Monetary Policy Council to reduce interest rates. At the moment most important factor restricting

further interest rates reductions is the fear for polish zloty exchange rate.

This means that Monetary Policy Council has to choose between stimulating economy and stabilising polish currency. As a result inflation goal (inflation on the level of 2,5% plus/minus 1 percentage point) is in the background.

Conclusions

Comparing GDP prognoses for Poland for 2009 to other European Union countries, United States, Japan and Russia we may come to conclusion that the world's crisis will have little affect on polish economy. According to International Monetary Fund Poland is on the 3rd place among the above mentioned countries.



Table 1.

GDP growth prognosis for Poland for 2009 in comparison to other EU countries, USA, Japan and Russia.

Country	2009	UE
Cyprus	0,3	x
Greece	-0,2	x
Poland	-0,7	x
Malta	-1,5	x
Bulgaria	-2,0	x
Slovakia	-2,1	x
Slovenia	-2,7	x
USA	-2,8	
Austria	-3,0	x
France	-3,0	x
Spain	-3,0	x
Hungary	-3,3	x
Czech Republic	-3,5	x
Belgium	-3,8	x
Danmark	-4,0	x
Portugal	-4,1	x
Romania	-4,1	x
Great Britain	-4,1	x
Sweden	-4,3	x
Italy	-4,4	x
Luxembourg	-4,8	x
Holland	-4,8	x
Finland	-5,2	x
Germany	-5,6	x
Russia	-6,0	
Japan	-6,2	
Ireland	-8,0	x
Estonia	-10,0	x
Lithuania	-10,0	x
Latvia	-12,0	x
Average		
World	-1,3	
European Union	-4,0	
Euro Zone	-4,2	

Source: own work based on IMF data .

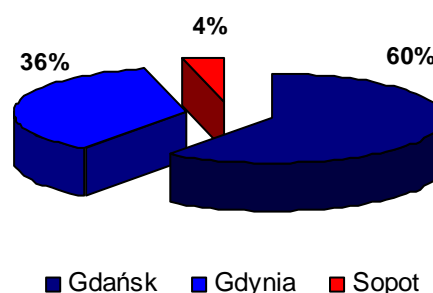
If the fact of being so high in comparison to other countries (table 1) is certainly positive, GDP prognosis for 2009, which is -0,7%, must be alarming! However if we compare it to the average (-4,0% in the EU and -4,2% in the Euro Zone) Poland is much above it. Taking under consideration high risk of domestic demand fall and little share of net export in GDP structure, it will be very difficult to reach GDP growth. This statement finds confirmation in the IMF estimation of polish GDP in 2009. ■

Office space market

Investor Assistance Centre (IAC) estimates total modern office space in Tricity (buildings of more than 500 m²) for 195 000 m². This means that Tricity is the 4th office space market in Poland after Warsaw, Kraków and Wrocław. Most of the office space is in Gdańsk (60%), little less in Gdynia (36%) and least in Sopot (4%). As a relatively young market, Tricity has been experiencing growing interest for the past few years. What distinguishes Tricity among other markets is the fact that development is driven by local developers.

Chart 4.

Office space in Tricity
(II Quarter 2009).



Source: own work.

Strong market position of such companies like Allcon Investment, Hossa Investment Group or Torus causes that international investors has been so far rather reluctant to start significant office space projects on the local market. However, this situation has been changing – AV Chmielna Sp. z o.o. (daughter company of Israeli Vitania Ltd.) is constructing at Chmielna Street an A-class office building Granary Island Business Centre. Also polish developer from outside Tricity – Centrum Zana from Lublin – has decided to enter the market. At the moment this investor is carrying out Office Island project at one of the most important arteries in Tricity, Grunwaldzka Street (in close vicinity of the biggest shopping gallery in Tricity – Baltic Gallery). ▶

Table 2.

Office space properties in Tricity
(II Quarter 2009).

Property	Location	Office space (m ²)
Gdańsk		
Abrahama Office Building	Abrahama Str.	6 000
Allcon @ park I i II	Słowackiego Str.	9 600
Apeks Jaśkówka	Jaśkowa Dolina Str.	1 200
Arkońska Business Park I	Arkońska Str.	10 085
CB Gnیلna	Gnیلna Str.	1 622
CB Grunwaldzka	Grunwaldzka Str.	9 000
CB Centromor	Okopowa Str.	4 000
CB Zieleniak	Wały Piastowskie Str.	13 540
CH Manhattan	Grunwaldzka Str.	8 000
CH Real	Kołobrzeska Str.	4 256
Centrum Dmowskiego	Dmowskiego Str.	2 784
Haxo	Strzelecka Str.	2 200
Hossa Company House	Grunwaldzka Str.	7 200
Ka5	Kartuska Str.	3 550
Organika Trade	Heweliusza Str.	10 000
Sadowa Business Park	Sadowa Str.	6 550
Torus G413	Grunwaldzka Str.	4 254
Torus G417	Grunwaldzka Str.	850
TPS Otwarta Przestrzeń B1	Biała Str.	3 825
Vigo	Skarżyńskiego Str.	8 020
Total office space in Gdańsk:		117 701
Sopot		
Centrum Majkowskiego	Majkowskiego Str.	3 700
Inekspl	Reja Str.	3 500
Total office space in Sopot:		7 200
Gdynia		
Alfa Plaza Business Center	Batorego Str.	7 682
Balic Business Center	Śląska Str.	10 000
Port of Gdynia Office Building	Wiśniewskiego Str.	6 000
Cech Rzemiosła i Przedsiębiorczości	Batorego / 3 Maja Str.	1 800
CB Hossa	Władysława IV Str.	6 900
Kwiatkowski Centre	10 Lutego Str.	3 000
Chipolbrok	Śląska Str.	2 908
City Arcade	Śląska Str.	1 500
Gdynia Business Centre	Kaszubski Sq.	6 986
Łużycka Office Park	Łużycka Str.	16 160
Morska Agencja Gdynia	Wendy Str.	1 950
Sea Towers	Hryniewieckiego Str.	4 100
TPS Otwarta Przestrzeń K12	Krzywoustego Str.	649
Total office space in Gdynia:		69 635
Total office space in Tricity:		194 536

Source: own work.

It is expected that at least few more investors, already having attractive lands will appear on Tricity market in the coming years. Just to mention Echo Investment (Tryton Project), Baltic Property Trust consortium or TK Development (Young City Project).

At the moment 57 000 m² of modern office space is under construction in Tricity. These buildings have a chance of increasing vacancy rate which accounts for 3%. Such low vacancy rate is convenient for investors but causes difficulties for companies, those looking for bigger office space and the new ones.

Those companies, due to lack of available office space are forced to sign 'pre-let' contracts (i.e. space reservation before the building is handed over for use). On the other hand starting new projects by investors is contingent upon that condition.

At the moment 57 000 m² of modern office space is under construction in Tricity.

In 2008 rental prices for A-class buildings ranged from EUR 15 to EUR 18 per m² a month. Rental prices in B-class buildings were on average 2-3 EUR lower. In 2009 demand slowdown is expected, mostly due to worse economic situation which stops a lot of investment decisions – companies do not decide on renting new office space. This may cause a pressure on lowering rental prices and introducing additional incentives for tenants.

On the other hand, recession influences supply – many developers have problems with financing new projects. Reduced supply of office buildings may effectively stop decrease in rental prices on a larger scale. ►

Table 3.
Main projects under construction or planned in Tricity.

Project	Investor	Office space (m ²)	Planned delivery
Allcon @ park III, Gdańsk	Allcon Investment	8 400	II quarter 2011
Arkońska Business Park II, Gdańsk	Torus	16 566	IV quarter 2009
Fregata, Gdańsk	DORACO Developing	1 262	I quarter 2010
Granary Island Business Centre, Gdańsk	AV Chmielna Sp. z o.o.	7 000	IV quarter 2010
Hynka, Gdańsk	Inpro	991	II quarter 2009
Kartuska 201, Gdańsk	DAP Karpiak Sp.j.	2 200	II quarter 2009
Łużycka Office Park, Gdynia	Allcon Investment	4 400	III quarter 2009
Office Island, Gdańsk	Centrum Zana	5 500	II quarter 2010
Oliva Business Park, Gdańsk	Truss Real Estate	4 490	III quarter 2010
Platanowa, Sopot	ODDK	5 500	IV quarter 2009
Logo, Gdańsk	Estate Fellows	5 800	IV quarter 2010

Source: own work.

Table 4.
Biggest transactions on office space market in 2008.

Tenant	Office space (m ²)	Building	Agent
GE Money Bank	5 380	Arkońska Business Park I	Jones Lang LaSalle
Arla Foods	2 700	CB Heweliusz	Ober-Haus
GEOBAN Grupo Santander	2 475	Łużycka Office Park	Kinge Sturge
Acxiom Polska	2 300	CB Grunwaldzka	Ober-Haus
BZ WBK S.A.	1 076	Arkońska Business Park	Torus
EUROHEAT HQ	682	Łużycka Office Park	Allcon Investment
Mercor	655	Arkońska Business Park	Torus
Optix	500	Centrum Majkowskiego	Ober-Haus
Regional Public Prosecutor's Office	500	Centromor	Ober-Haus

Source: own work.

Developers, having their projects in Tricity, take an optimistic view of modern office space market. Increasing ratings of Poland and Gdańsk in international rankings, attractive costs of labour force, economic and political stability and improving transport accessibility of Tricity should cause new investments' slowdown less severe – as Sergiusz

Although we live in global recession times, Tricity with its office space market seems to have optimistic prospects for the future.

Sergiusz Gniadecki,
Allcon Investment

Gniadecki, Allcon Investment chairman says.

Confirmation of this may be a new project of Allcon Invest-

ment – Allcon @ park III, scheduled to be delivered in 2011. First contract has already been signed with Young Digital Planet.

Quite calm about the future is also chairman of

Recession will not influence lease of A-class office spaces situated in the best districts of the cities.

Maciej Balcerek, Centrum Zana

Centrum Zana, Maciej Balcerek, who has made a decision to start his first commercial project in

Gdańsk – Office Island.

Developer thinks that recession will not influence lease of A-class office spaces situated in the best districts of the cities. In his opinion they will always be attractive for tenants, regardless of economic situation on the market. ■

Office buildings scheduled to be handed over in 2009-2011

Allcon @ park III



Photo: Investor's materials

Location: Gdańsk, Słowackiego Str.

Total office space: 8 400 m²

Available office space: 5 400 m²

Handover: I Q 2011

Arkońska Business Park II



Photo: Investor's materials

Location: Gdańsk, Arkońska Str.

Total office space: 16 566 m²

Available office space: 14 200 m²

Handover: IV Q 2009

Granary Island Business Centre



Photo: Investor's materials

Location: Gdańsk, Chmielna Str.

Total office space: 7000 m²

Available office space: 7000 m²

Handover: IV Q 2010

Kartuska 201



Photo: Investor's materials

Location: Gdańsk, Kartuska Str.

Total office space: 2 200 m²

Available office space: 2 200 m²

Handover: II Q 2009



Łużycka Office Park



Photo: Investor's materials

Location: Gdynia, Łużycka Str.

Total office space: 22 00 m²

Available office space: 14 000 m²

Handover: III Q 2009 (D building)

I half 2010 (E building)

Office Island



Photo: Investor's materials

Location: Gdańsk, Grunwaldzka Str.

Total office space: 5 500 m²

Available office space: 5 500 m²

Handover: II Q 2010



Oliva Business Park – „Alfa” Building



Photo: Investor's materials

Location: Gdańsk, Piastowska Str.

Total office space: 4 490 m²

Available office space: 4 490 m²

Handover: IV Q 2010

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