Wrocław Office and Labour Market

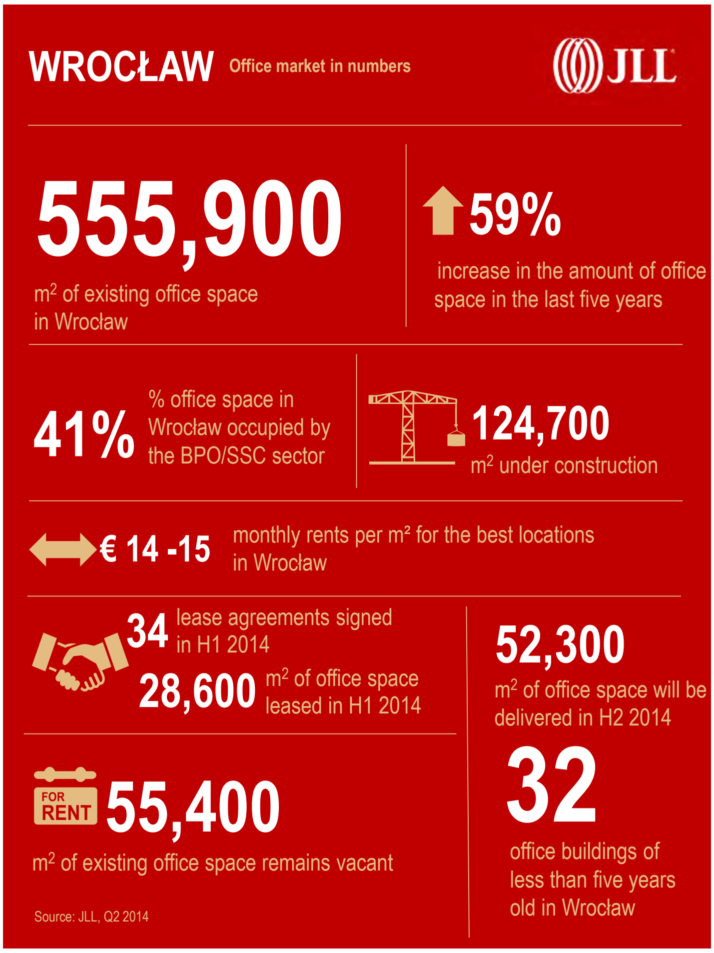
Q2 2014

Office Market

Overview

Wrocław is one of the fastest developing markets in Poland both in terms of construction and tenant activity and the third largest as far as office stock is concerned (a total of 555,900 m²). 37% of all existing office space in the city is less than five years old. Developers still feel confident about their office investments in Wrocław, which is a result of the high demand for office space (the third biggest market after Warsaw and Kraków in 2012, 2013 and fourth in H1 2014, after Warsaw, Kraków and Katowice).

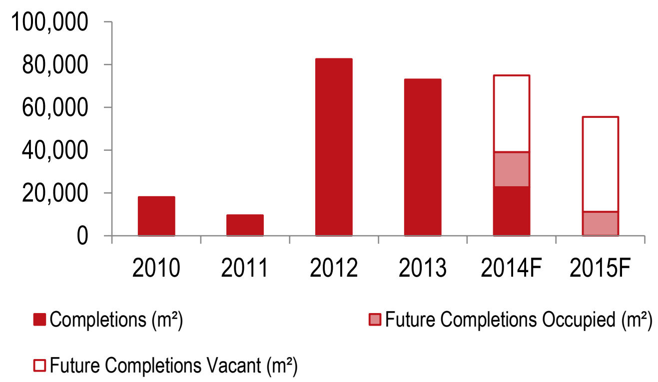
At the moment, most office space in Wrocław is located in the City Centre and in the West region (409,600 m² together).The main developments in the central district include Grunwaldzki Center (phases A, B & C, compromising 23,700 m²), Bema Plaza (23,000 m²), Green Day (15,500 m²) and Centrum Orląt (13,700 m²). In the West region the largest developments are Wojdyła Business Park (25,800 m² in phases I & II), Green Towers A&B (23,300 m²), Millenium Towers (buildings I,II & IV, offering 20,500 m² of office space) and Silver Forum (16,200 m²). However, developers also recognise the growing potential of the South, yet saturating mainly the nearest surroundings of Powstańcow Śląskich Street. Over the last five years the South region has grown by more than 69,000 m², mostly due to developments such as Sky Tower (LC Corp) and Aquarius Business House I & II (Echo Investment) to name just two. The most prominent development in the North remains Wrocławski Park Biznesu II (buildings B1 & B2 with 10,500 m²).



Office pipeline

In H1 2014, 22,700 m² of modern office space was delivered in Wrocław, with Green Day alone offering 15,500 m². We expect the Wrocław market to grow by an additional 52,300 m² by the end of 2014, including deliveries such as West Gate, Wrocławski Park Biznesu II (B4), Promenady Zita phase I and Silver Tower Center to name just a few. Currently, the biggest development under construction in Wrocław is Dominikański office building (almost 36,000 m² of office space) subject for delivery in Q3 2015. Second largest, Times II (17,000 m²), will be commissioned in H1 2016. Both projects are applying for LEED platinum certification. Currently, 70% of all buildings under construction are located in the central part of Wrocław. Moreover, 22% of all space under development in the city is already secured by pre-let agreements.

Completions in Wrocław (m²)

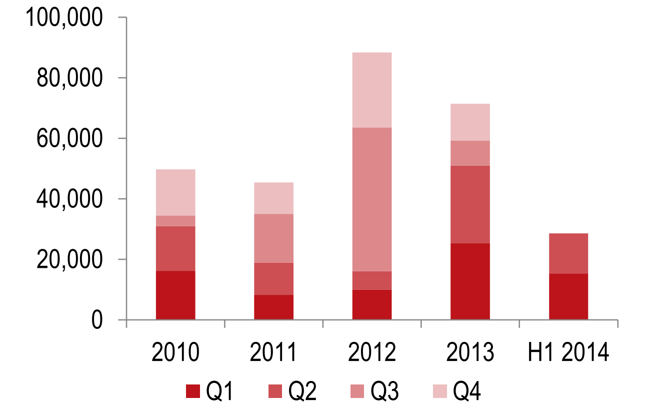


Source: JLL, Q2 2014, F-forecast

Demand for office space

The Wrocław market is rather absorptive and mostly driven by large agreements (for example 11,700 m² for Getin in 2013, 14,200 m² for Nokia Solutions and Networks or 10,050 m² for Credit Suisse, both in 2012). It is also one of the largest BPO/SSC hubs, with 58 operational centres in 2014, occupying 41% of the entire office space in Wrocław. Worth noting is the rate of employment in the BPO sector, which increased by 68% from the beginning of 2012 and which corresponded with a record-breaking gross take-up of almost 88,400 m² of office space leased that year (20% of all existing stock in the entire city). Moreover, we are of the opinion that the situation regarding the demand side in Wrocław remains very positive. In H1 2014 the gross take-up was 28,600 m², however, several large agreements are currently under negotiation and will be concluded by the end of 2014. In H1 2014 the biggest agreements included: 4,900 m² renewed by a confidential tenant in Silver Forum, new deals signed by Fresenius Kabi in New Point Offices and by Parker Hannifin in Dubois 41 for 2,600 m² and 2,500 m², respectively, as well as OBSS expansion in West House for 2,200 m².

Gross take-up by quarter (m²)

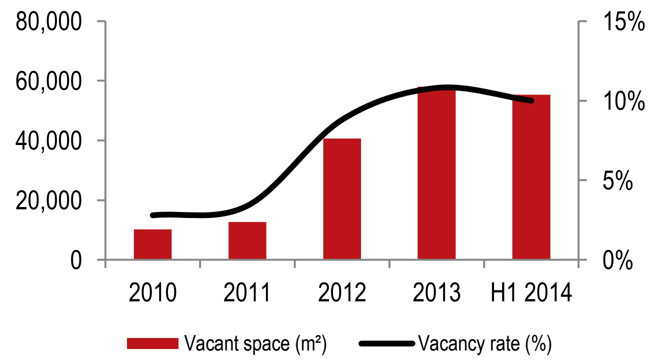


Source: JLL, Q2 2014

Vacancy in Wrocław

In the past the vacancy in Wrocław hovered around 3.1% (the average for both 2010 and 2011) and offered hardly any choice for new tenants, especially those who would be looking for extensions in the shorter perspective. Currently, the overall vacancy rate in the entire city stands at 10%. In addition, 12.4% of office space in new buildings (those of less than five years old) is unoccupied.

Vacant space (m²) and vacancy rate (%) in existing buildings in Wrocław



Source: JLL, Q2 2014

Rents in Wrocław

We expect that the influx of new completions will increase the vacancy rate in 2014, leaving tenants with a much wider spectrum of office space to choose from.

We have already seen some rental pressures on the Wrocław market. In Q2, the higher and lower bands of prime headline rents decreased by €0.5, leaving prime headline rents ranging from €14 to €15 / m² / month. Average rents are currently estimated between €12 and €13. We expect further rental pressures along with the commissioning of new offices over the course of 2015 and 2016.

Labour Market

Poland is currently one of the leading locations globally for the business services sector and, according to international consulting company Everest Group, is one of five mature locations for outsourcing worldwide. The sector is maintaining a constant and rapid-paced growth, making it one of Poland's fastest growing industries.

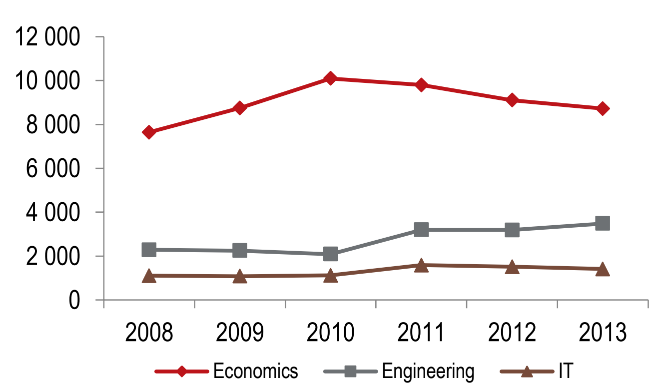
According to data from ABSL (the Association of Business Service Leaders in Poland), there are now more than 20,500 individuals (16% of the sector's workforce) employed by business services companies operating in Wroclaw, making it Poland's third largest market in terms of number of people working in this sector.

7,900 new workplaces were created here between 2012 and 2014 alone, giving a growth rate of 68%. As a leading education centre in Poland, Wrocław guarantees a constant inflow of well-educated, young workforce and further growth is expected.

Graduates in Wrocław

Wrocław has the third largest number of students in Poland and is an important centre for education. There are 24 tertiary education institutions located in the city and, according to the Central Statistics Office of Poland, those were attended by 125,000 students in 2013. In the same year, 1,400 people graduated with a degree in IT, 8,700 in economics and 3,500 in engineering – three key faculties for the business services sector (source: the Central Statistics Office).

Number of graduates in Wrocław in 2008 to 2013



Source: Central Statistics Office

Wrocław is a unique location on the Polish business services map: it is the only city where research & development centres employ more people than SSC/BPO and ITO centres do. This is creating a huge demand for youngsters who are prepared for a career specialising in R&D and demonstrates the significance of the city's ability to educate large numbers of engineering students. As Poland's second biggest centre for technical and engineering education, Wrocław is more than capable of meeting the demand.

The potential of Wrocław's graduates makes it the location of choice for investments requiring highly specialised knowledge what are referred to as KPO (Knowledge Process Outsourcing) centres. The city has also taken steps to facilitate the acquisition of suitable candidates entering the job market by establishing the Wrocław Academic Hub – a body responsible for co-operation between the universities and the business sector which aims to co-ordinate education policies with market requirements and to meet the expectations of both employers and graduates.

Experienced workforce

The availability of the experienced workforce is another example of the great potential that exists within Wrocław, which has become the location of choice for leading international companies such as IBM, McKinsey, Capgemini, Credit Suisse, Google and Nokia Solutions Network for their European operations. The specialists employed in Wrocław's centres speak the majority of European languages, this includes popular languages, such as English, German, French, Russian and Spanish, as well as niche languages, such as Dutch, Swedish and Finnish.

Another important factor is the high quality of life in Wrocław: the city has been awarded the title of European Capital of Culture for 2016. The attractiveness of the region will facilitate the relocation of candidates from other cities and this further enhances the available talent pool.

Salaries

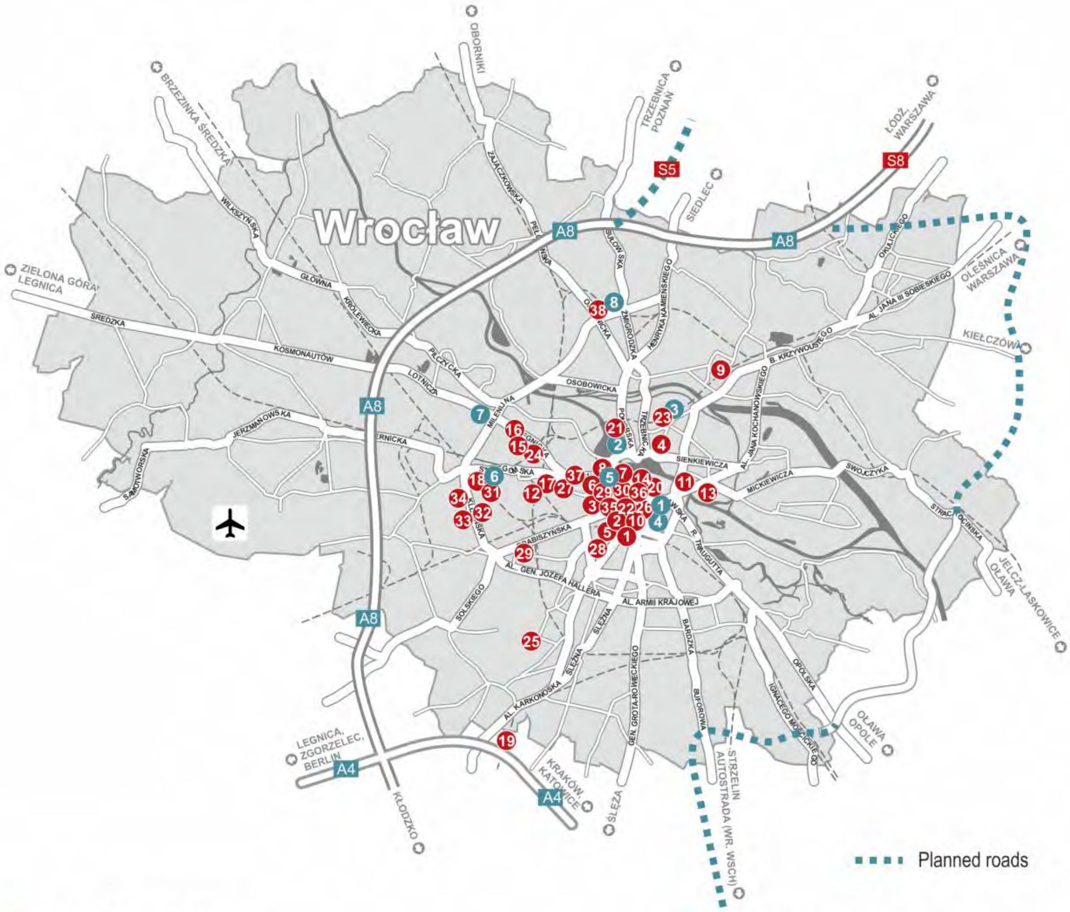
One of the main factors analysed in the process of selecting a location for a new service centre is the estimated investment costs, including labour costs. Salaries in Wrocław are still lower than in Warsaw, despite a comparable quality of life. Of course, as in every knowledge-based industry, salaries in the business services sector are dependent not only on where the company is based but also on a number of other factors, such as availability of rare skill sets, required sector experience and knowledge of foreign languages and market saturation.

Average gross monthly salaries for selected positions in Wrocław (in PLN)

Position (only English required)	Salary Min	Salary Max
Junior GL Accountant	3,000	4,500
GL Accountant	4,000	5,500
GL Team Leader	7,000	10,000
1st line IT Support	3,000	4,200
Oracle Administrator (5 years' experience)	8,000	14,000
Java Developer (3–5 years' experience)	7,000	11,000

Source: Hays Poland, June 2014

Map of selected major office developments in Wrocław



● Major Existing Office Buildings

1. Aquarius Business House I&II
2. Arkady Wrocławskie
3. ASCO Business Centre
4. Bema Plaza
5. Centrum Biurowe Globis
6. Centrum Orląt
7. CitiBank
8. Cuprum Novum
9. Długosza Business Park
10. Focus Plaza
11. Green Day
12. Green Towers A&B
13. Grunwaldzki Center A,B,C
14. Kameleon
15. Legnicka Business House
16. Legnicka Park Popowice
17. Millenium Tower I&II&IV
18. Muchoborska 6, B1&B2
19. Office Interiors
20. Oniro
21. Plac Strzelecki
22. Pod Złotym Debęm
23. Promenady Epsilon
24. Quattro Forum
25. Racławicka Center
26. Renoma DTC
27. Silver Forum
28. Sky Tower
29. Vega Centre
30. Wall Street House
31. West House A&1B (phase I)
32. Wojdyła Business Park I&II
33. WPT DINT
34. WPT I-CT
35. Wratislavia Center
36. Wratislavia Tower
37. Wrocławski Park Biznesu I
38. Wrocławski Park Biznesu II (B1&B2)

● Major Office Buildings Under Construction

1. Dominikański
2. Dubois 41
3. Promenady Zita I
4. Silver Tower Center
5. Times II
6. West House 1B (phase II)
7. West Gate
8. Wrocławski Park Biznesu II (B4)

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