

# KRAKOW PROPERTY

## Krakow Property Market View

SPRING 2008

### MARKETS SUMMARIES 2007:

Office Stock	304,000 sq m
Prime Office Rents	EUR 18 - 20 /sq m/month
Office Vacancy Rate	1.4%
Prime Office Yields	6.25 %
Retail Stock	420,000 sq m
Prime Retail Rents	EUR 45 - 55 /sq m/month
Prime Retail Yields	5.7%
Industrial Stock	24,500 sq m
Investment Volume	EUR 114.8 million

### FUTURE TRENDS:

Take-up	↑
Supply	↑
Vacancy	↑
Rents	↑
Yields	↔

### OFFICE MARKET

The modern office stock in Krakow now stands at around 304,000 sq m. This number includes newly built or fully refurbished schemes of A&B-Class. The buildings are situated:

- on the eastern fringe of the City Centre (around Mogilskie and Grzegorzeckie roundabouts and the main railway station).
- along Armii Krajowej and Wadowicka streets
- within the Special Economic Zone along Jana Pawla II Street and in Zabierzow village.

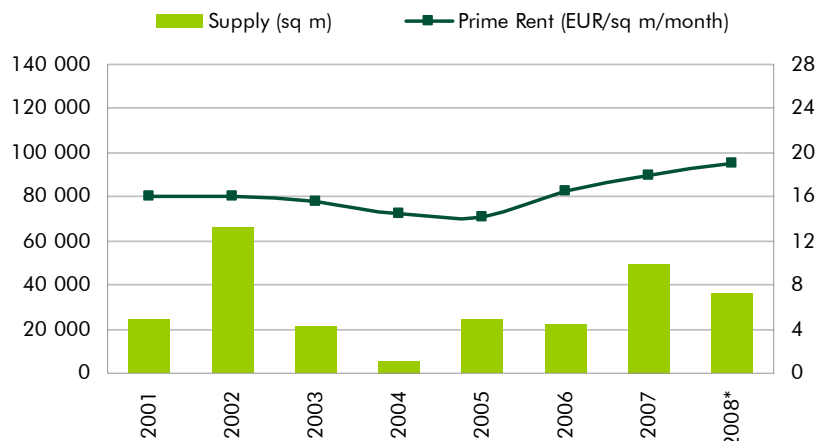
Currently, there are three business parks located in Krakow and its suburbs (Krakow Business Park, GTC Office Park and Rondo Business Park). In 2007, there was around 50,000 sq m of office space delivered in the city. Currently, there is around 44,000 sq m under construction and the next 310,000 sq m is planned to be delivered by 2010. Among the most active developers, there are local companies such as GD&K Group, Buma

Group, Krakow Business Park, Azbud and international – GTC, Echo Development, TriGranit, Quinlan Private Golub and Aldesa. The increasing demand from BPO companies has attracted a number of renowned developers with new projects.

The demand in Krakow has recently been boosted by sectors such as IT or R&D companies locating their BPO centres here. The total take-up in 2007 has been estimated at the level of 70,000 sq m. Major tenants include: Cap Gemini, HSBC, IBM and Shell. The vacancy rate at the end of 2007 oscillated at around 1.4% and the majority of agreements were pre-lets.

A substantial increase in tenants' demand, coupled with a lack of available supply, resulted in rental increase in 2007. Average rents achieved the level of EUR 14-16 /sq m/month, however prime rents in the best buildings such as Centrum Biurowe Lubicz or GTC on Armii Krajowej St. are quoted at EUR 18-20 /sq m/month. Service charges range from EUR 3 to 4 /sq m/month.

### SUPPLY & PRIME RENTS



\*Forecast

## RETAIL MARKET

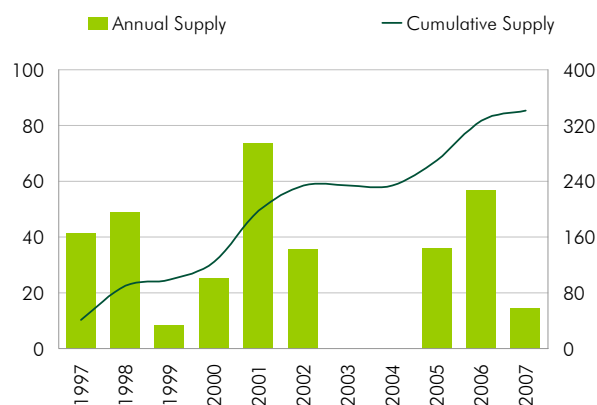
The total modern retail stock in Krakow is estimated at approx. 420,000 sq m. Out of this number, more than 340,000 sq m is located within 10 shopping centres. This means that for every 1,000 residents of the city there is 454 sq m of shopping centre space. The dominating projects are those providing 25,000 to 30,000 sq m. The greatest amount of retail space added to the market in Krakow was in 2001 - 73,000 sq m in two schemes.

Currently, Galeria Krakowska is the largest shopping centre in Krakow providing 57,000 sq m of retail space, including 270 shops. Other large shopping centres worth mentioning include: Galeria Kazimierz (36,000 sq m), M1 (42,000 sq m) and Krakow Plaza (30,000 sq m). There are also three retail projects currently in the pipeline: Bonarka by TriGranit, Olsza Mall by Mayland, and Factory Outlet together with Futura Retail Park by Neinver.

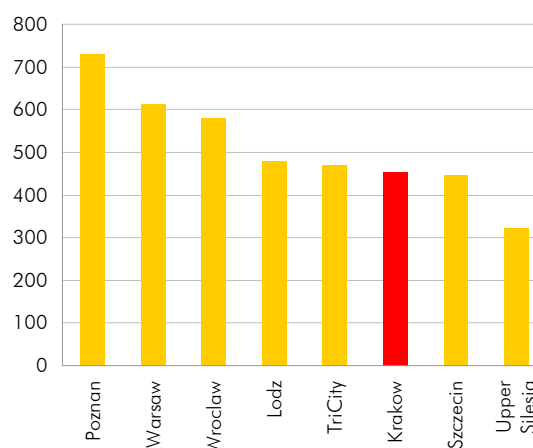
Retail space on the main streets is concentrated in the old town. Florianska and Grodzka Streets are considered to be the best high street shopping locations in the city with a natural high pedestrian flow. These are the main arteries connecting the Main Railway Station with the Main Square and further on with the Wawel Castle. Many retail brands choose this area as a location for their stores, including such as: Max Mara, Hexeline, United Colors of Benetton, Krakowski Kredens, Orsay, Sephora, etc.

Prime retail rents for units of approx. 100 sq m within shopping centres amount to EUR 45 – 55 /sq m /month. Prime rents for units on the main high streets range from EUR 65 – 75 / sq m / month.

### SHOPPING CENTRE STOCK EVOLUTION IN KRAKOW ('000 sq m)



### SHOPPING CENTRE DENSITY IN MAJOR CITIES (sq m/1,000 inhabitants)



Key Retail Destinations	Key Features	Main Retailers	Prime Rents
Galeria Krakowska	City Centre location, 500 metres from the Old Town	P&C, Versace, Zara, Mango, Bershka, Mexx, Tru Trusardi, Esprit, Gino Rossi, Apart	EUR 45 - 55
Galeria Kazimierz	City Centre location with a strong leisure element	Alma, Cinema City, Zara, Hennes & Mauritz, C&A, Reserved, Hugo Boss, Kenzo, Apart	EUR 35 - 45
Main Square and Florianska Street	Krakow's most famous and busiest street, Florianska is 335 meters long	L'Occitane, United Colors of Benetton, Hexeline, Vero Moda, Orsay, Sephora, Colloseum	EUR 65 - 75
Grodzka Street	Second busiest shopping street in Krakow, 650 meters long	Max Mara, Simple, LaCoste, Yves Rocher, Krakowski Kredens, Greenpoint	EUR 50 - 65

## INVESTMENT MARKET

Krakow is the second city in Poland in terms of investment market. The total volume amounted to EUR 115 millions in 2007. However, last year the number of transactions halved - from 8 in 2006 to only 4 in 2007. Retail and office transactions diminished in value by 65% and 35% respectively. There have been neither industrial nor hotel transactions completed. The reason for this situation is the increasing cost of debt and the lack of quality products. The majority of investments have been carried out by foreign, international companies. The largest transaction was the purchase of Rondo Business Park by Credit Suisse Asset Management for EUR 44 million.

Prime yields for office transactions in Krakow compressed to 6.25 – 6.5% in 2007 whereas yields for retail transactions compressed to 5.5 - 6%.

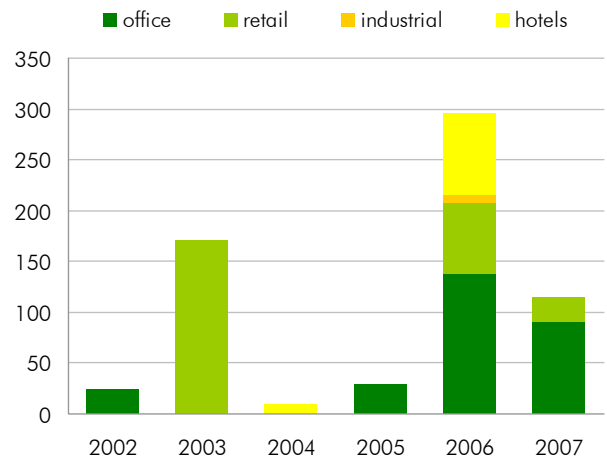
## INDUSTRIAL MARKET

Krakow is the third largest city in Poland, with a strategic location - close to the Silesia conurbation, on the A4 highway and in close proximity to Slovakia and Hungary. However it suffers from a lack of modern, high quality industrial space for lease. This situation is mostly caused by a low supply of investment plots in a hilly landscape around the city. For this reason, the Silesian conurbation, located only by a 40 minutes drive away from Krakow, plays the first fiddle in terms of logistic services in the southern part of Poland. The existing warehousing stock in Krakow serves only for the local market.

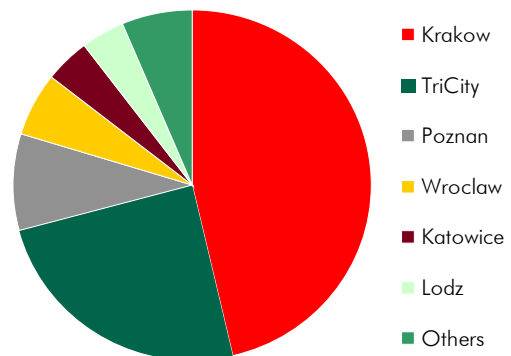
The main player in Krakow is Biuro Inwestycji Kapitałowych (BIK) - a Polish developer of two warehouse schemes – Centrum Logistyczne Krakow I and Centrum Logistyczne Krakow II. However, only CL Krakow II meets the standard of modern speculative warehouse stock (11,000 sq m). Currently there is only one new project planned by Goodman in Modlniczka, which assumes delivery of around 150,000 sq m of modern warehousing space to the Krakow market.

Asking rents oscillate between EUR 3.9 /sq m/month up to EUR 6 /sq m/month even in lower standard schemes. All of the existing warehouse space in Krakow has already been leased.

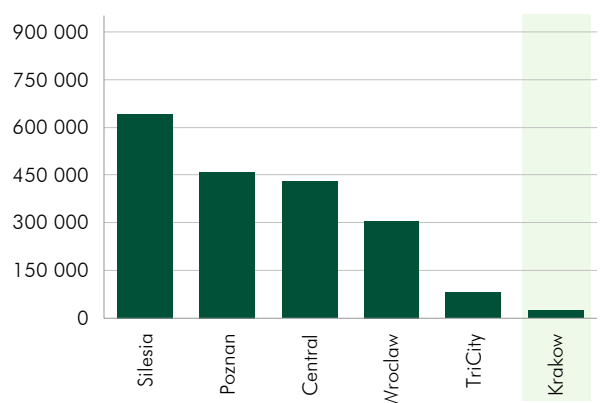
INVESTMENT STRUCTURE IN KRAKOW (EUR millions)



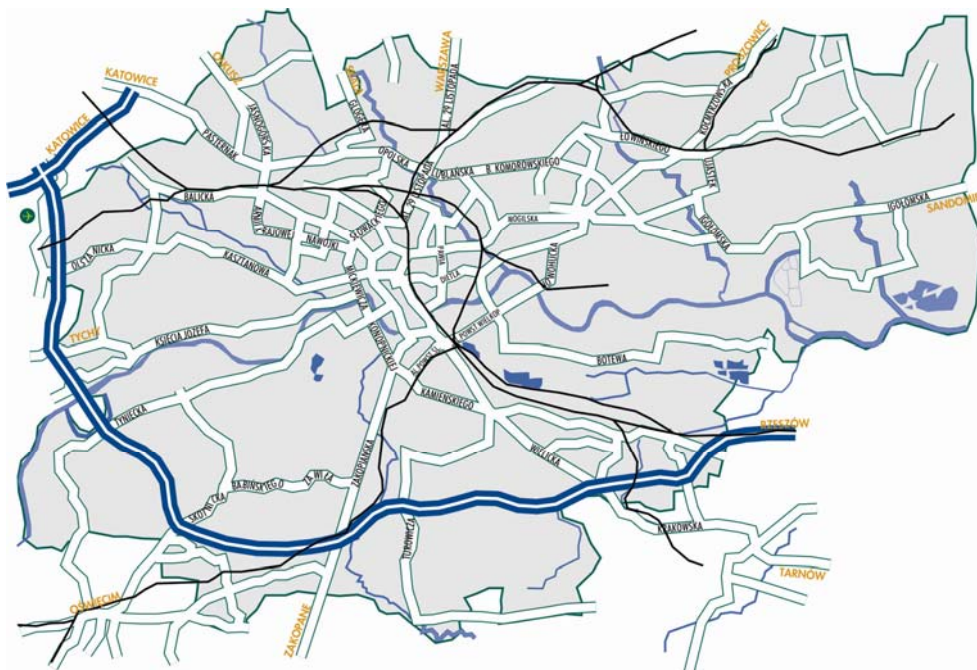
OFFICE TRANSACTIONS IN REGIONAL CITIES 1998-2008 (%)



WAREHOUSE SPACE IN REGIONAL CITIES (sq m)



## Map of Krakow



### Major Office Buildings :

1. CB Lubicz
2. Krakow Business Park
3. GTC Office Centre
4. Buma Square Business Park
5. Rondo Business Park
6. CB Azbud
7. CB Euromarket
8. Diamante Plaza (UC)
9. Enterprise Park (Planned)
10. Bonarka Park (Planned)
11. Quattro (Planned)
12. Vinci Office Centre (Planned)

### Major Warehouse Schemes:

1. Centrum Logistyczne Krakow II
2. Cracow Airport Logistic Center (Planned)

### Major Retail Destinations :

1. Grodzka and Florianska Streets
2. Main Square
3. Galeria Krakowska
4. Galeria Kazimierz
5. M1
6. Krakow Plaza
7. Zakopianka
8. Bonarka City Centre (UC)
9. Olsza Mall (Planned)

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