

Krakow Office Update

Recent Boom Soaked up all Supply

Economy

The economic recovery was in full swing in 2004, with GDP growth of 5.4% beating expectations. Economists forecast that GDP should grow by 4.5% in 2005. The National Bank of Poland lending rate started 2005 at 6.5%. The large influx of Foreign Direct Investment drove the Polish zloty up 15% against the euro in 2004. Poland joined the EU in 2004 and is widely expected to join the Euro currency in 5-7 years.

Supply

As is often the case, supply lags two years behind the new economic boom. Only 1,400 sqm were brought to market in 2004, which now totals 127,600 sqm. The most important buildings are:

Lubicz Centre – Many years after opening half empty, the 13,800 sqm offering of Mostostal is now fully let. Lubicz Centre, the largest city centre office building in Krakow, is a barometer for the market. Its success now is a strong positive sign for developers.

GTC Galileo – The first of three planned out-of-centre buildings by GTC in the western section of Krakow. Galileo's 10,000 sqm are now 85% let, with IBM as the largest tenant. Out-of-centre schemes are popular because of their lower rents and available parking. GTC plans to build two more blocks of the same size in 2006 and 2007.

Nowa Kamienica – opened in 2004 near Lubicz Centre by the local development group GDK, Nowa Kamienica offers 1,400 sqm of class A space. The building was leased to MediCover and Deutsche Bank, as well as the offices of GDK.

Buma Square – a large mixed use scheme on the south side of Krakow. Buma is being developed in stages, with 20,000 sqm of office space currently in use and 12,500 sqm more planned over the next two years. The largest tenant is Tesco, for their back-office operations.

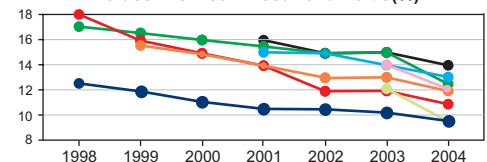
Future developments include the mixed-use **Nowe Miasto** project, which will offer a total of 60,000 retail and 10,000 sqm of A class office space at the main train station. The project will be completed by the beginning of 2007.

In total there will be another 26,000 sqm of modern office space delivered to Krakow within next two years.

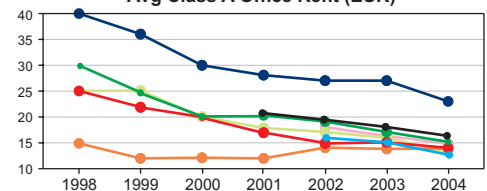


Centrum Jasnogorska 44 as an example of modern office buildings which are mostly located outside city centre.

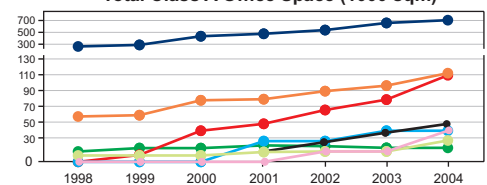
Class A Office Investment Yields(%)



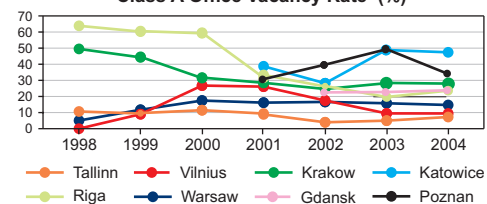
Avg Class A Office Rent (EUR)



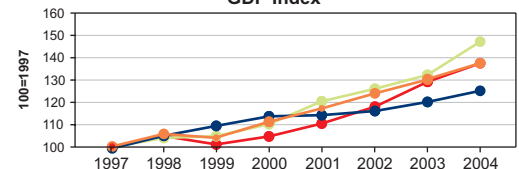
Total Class A Office Space (1000 sqm)



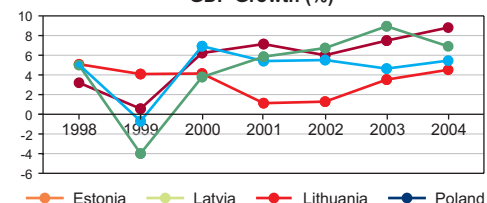
Class A Office Vacancy Rate (%)

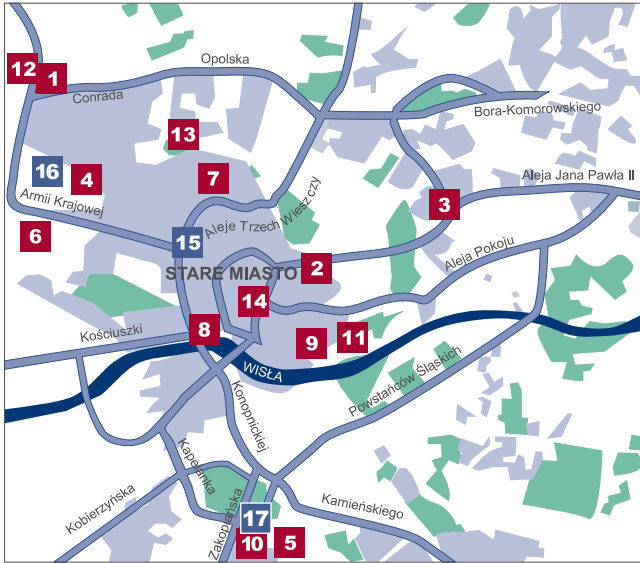


GDP Index



GDP Growth (%)





Demand

Demand is for 200 to 400 sqm units, either modern buildings just outside the centre, or renovated historical buildings in the very centre, although these tend to be smaller and lack parking.

Demand for the most prestigious office space is systematically growing, turning the market from a tenant driven market to an owner driven market.

The vacancy rate has dropped below 18%, but is well below 10% in the best five buildings in the city.

Rents

As a result of growing demand rents bottomed out last year and have now crept up to 9 to 14 EUR per sqm for modern offices and 7 to 13 EUR per sqm in historical buildings in the Old Town. As the economy in the Krakow region gets stronger we expect demand to increase during next two years, further reducing the vacancy rate and increasing rents.

Office sqm existing in Krakow

Property name	sqm
1 Euromarket	16 000
2 Centrum Biurowe Lubicz	13 800
3 Kompleks Biurowy Azbud	10 000
4 GTC Galileo	10 000
5 Krakow Business Park	9 500
6 Centrum Biurowe Zasada	4 400
7 Herbewo	3 500
8 Biuro Pod Wawelem	2 400
9 Cracovia Business Center	12 000
10 Buma + Wadowicka 8 W	10 000
11 Lobos	700
12 Business Park	30 000
13 Business Plaza	3 900
14 Nowa Kamienica	1 400
TOTAL	127 600

Office sqm planned in Krakow

Property name	sqm
15 Nowe Miasto	22 000
16 Centrum Biurowe GTC	20 000
17 Buma Square *	15 000
TOTAL	57 000
* Outside of the map area	

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