

SERVICE COSTS AND CHARGES IN OFFICE BUILDINGS IN POLAND



ASSUMPTIONS

Knight Frank manages commercial buildings in Poland with a total area of **1.3 million sq m**. This report is based on a portfolio of A/A+ and B/B+ class office as well as office and retail buildings located in the Central Business District (CBD) in Warsaw, other areas in Warsaw outside the CBD, and in regional cities of Poznań, Wrocław, Kraków, Gdańsk and Łódź, whereby:

- the report covers only buildings constructed after 1998,
- service charges are calculated per total rentable area,
- figures are averaged and expressed in PLN in net amounts,
- the report covers the period between 2011 and 2014.

COSTS OF LETTING OFFICE SPACE

Tenants, in addition to the **base rent**, are required to pay additional monthly charges, including **service charge, car parking** as well as **Internet**, **telephone** and **utility charges**.

In Warsaw asking rents in buildings situated within the Central Business District range between EUR 16-23/sq m, while office space in non-central locations is priced at EUR 11-18/sq m. In all major regional cities in Poland, asking rents for office space are similar and range between EUR 8.5 and EUR 13/sq m in Łódź to EUR 10 and EUR 16/sq m in Poznań and Wrocław.

DEFINITION OF SERVICE COSTS

Service costs include all costs incurred by the owner to properly maintain the property and keep it in a good state of repair. These include:



Service charges do not include:

- costs of property improvement and modernisation carried out to enhance the property value,
- tenants' fit out costs,
- repair costs arising from misuse by tenants or other entities,
- costs incurred as a result of acts and omissions by the property owner and manager,
- administration costs incurred by a special purpose vehicle (SPV).



CONSTITUENT SERVICE COSTS IN OFFICE BUILDINGS

other services

insurance

perpetual usufruct payments

cleaning of common areas

> property management

> > security

facility management

property tax

utilities

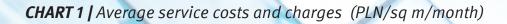
SERVICE COSTS VERSUS SERVICE CHARGES

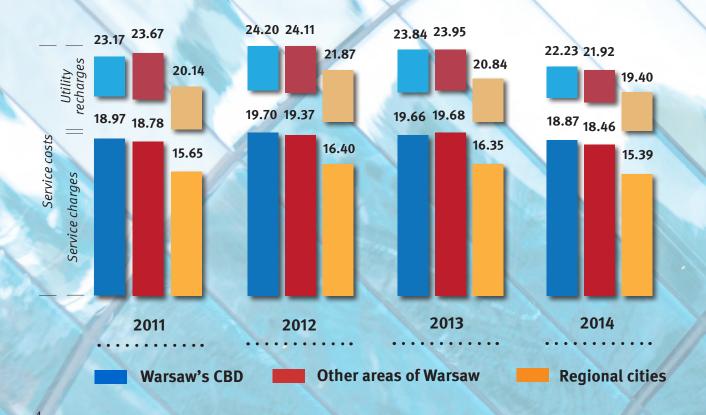
In commercial properties, service costs are passed on, in whole or in part, to tenants in the form of **service charges** and / or **utility recharges**.

Types of costs covered by service charges and the manner of calculating them are specified in lease agreements.

Where a property is equipped with individual meters, tenants are invoiced separately for electricity, heating and water consumption directly. In the event that a property does not have individual meters installed, charges are calculated based on cubic capacity, leased floor area and / or technical equipment and installations.

Other costs, including utilities used in common areas, are calculated based on the tenant's share in the rentable floor area.





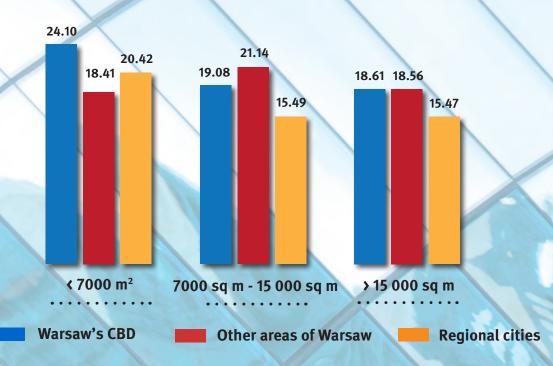


SERVICE COSTS ACCORDING TO THE TOTAL AREA OF BUILDING AND LAND

The majority of the main constituent service costs is directly correlated with the total area of the building, with two exceptions, namely the annual perpetual usufruct charge and security charges, which depend on the functional structure of the property.

The square footage of the land where the building is located has a significant impact on grounds maintenance and property tax costs.

CHART 2 | Average service costs (between 2011 and 2014) relative to the square footage of the office building (PLN/sq m/month)

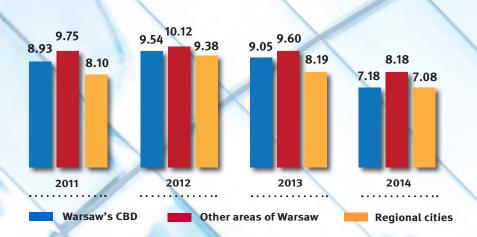


UTILITIES



Utility costs include mainly electricity, which accounts for 60%-70% of total utility costs, as well heating, gas, water and sewage disposal costs. The fall in utility charges that occured in 2014 can be attributed to highly favourable terms of electricity procurement contracts negotiated by property managers.

CHART 3 | Average utility costs in an office building (PLN/sq m/month)

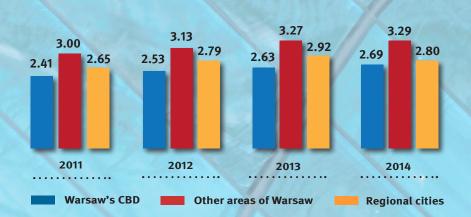


PROPERTY TAX



Property tax applies to land, buildings and structures. It is calculated based on the rate per square meter of land and the total floor area of the building (depending on the type of business activity) or, in the case of structures, as a percentage of their initial value.

CHART 4 | Average property tax rates (PLN/sq m/month)



FACILITY MANAGEMENT



The cost of facility management is made up of technical installations service and technical support carried out by a permanent group of support technicians and / or a mobile service.

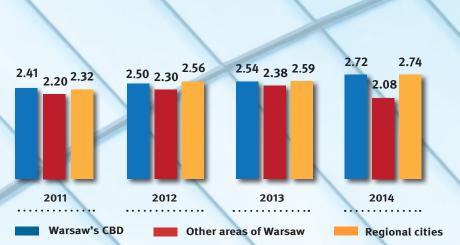


CHART 5 | Average cost of facility management (PLN/sq m/month)

PROPERTY MANAGEMENT



Property management rates are normally defined as a percentage of invoiced annual rental income.

CHART 7 | Average costs of office property management (PLN/sq m/month)



CLEANING OF COMMON AREAS



This service involves cleaning common areas inside the building, car parks and external areas as well as required cleaning products and materials.

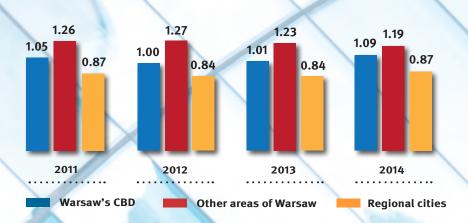


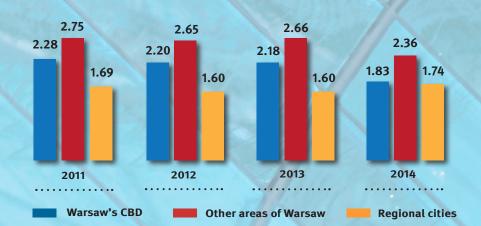
CHART 8 | Average costs of cleaning common areas (PLN/sq m/month)

SECURITY



Security costs include the cost of reception staff and security guards. Security officers are supported in their work by CCTV surveilance cameras, card access control systems and, increasingly, turnstile access control systems.

CHART 6 | Average security costs (PLN/sq m/month)



PERPETUAL USUFRUCT



The annual perpetual usufruct charge is calculated based on the land value and the intended purpose of the land (3% of the value in the case of land used for commercial purposes and 1% of the value in the case of land used for non-commercial purposes). The land value is adjusted periodically, no more often, however, than once every three years. In Knight Frank's property management portfolio, 60% of landlords in regional cities hold a freehold title to their property while in Warsaw the percentage is significantly lower, at 42%.

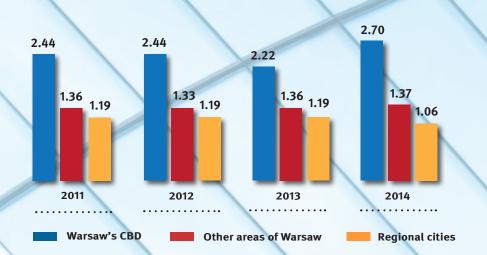


CHART 9 | Average annual charge for the right of perpetual usufruct (PLN/sq m/month)



INSURANCE

Insurance costs include the cost of property insurance, including terrorism, natural disaster and civil liability insurance covers.

CHART 10 Average costs of insurance (PLN/sq m/month)



OTHER COSTS

(C)

This item covers a broad and difficult to accurately estimate range of costs, which includes recurring and predictable costs (procurement of day-to-day services, e.g. waste disposal, facade cleaning or maintenance of green areas), costs incurred every few years (e.g. 5-year inspections and measurements) as well as seasonal costs (e.g. repairs, snow removal).

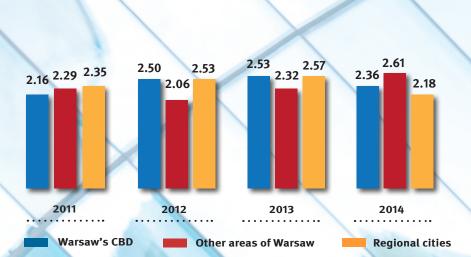


CHART 11 | Other costs (PLN/sq m/month)

T R E N D S F O R T H E F U T U R E



UTILITIES

The freeing up of the energy market in 2012 enabled property managers to enter into and negotiate terms of energy supply contracts with providers of their choice. Initial results of energy supply contracts for 2016 indicate that energy prices will fall slightly, as compared to 2015 when energy prices at the Energy Exchange rose unexpectedly relative to 2014. It is envisaged that the remaining utilities markets will be liberated in the coming years.



CLEANING AND SECURITY

Changes in employment regulations, due to take effect on 1 January 2016, will result in increased costs of security and cleaning services, where employee salaries are the main cost factor. Depending on the type of property, such costs may rise by 10% to even 40%, forcing some businesses to implement technological solutions to reduce the physical presence of employees on the premises.



FACILITY MANAGEMENT

In the contemporary facility management market, facility management companies tend to expand their offer by services requiring specialist licenses to carry out periodic inspections of technical equipment and installations, which until recently were an exclusive domain of manufacturers.

T R E N D S F O R T H E F U T U R E



PROPERTY MANAGEMENT

Since 2013, as a result of changes in rent levels and vacancy rates, property management fees have decreased significantly. The changes have also been fueled by an increasing competition in the professional property management market.



USING THE ECONOMIES OF SCALE

Property managers and owners with large market shares are getting more and more successful at using the economies of scale to negotiate and set contract prices of electricity and services, thus optimising service costs. Knight Frank is an international real estate consultancy headquartered in London which has been active in the property market for nearly 120 years. Currently, Knight Frank employs over 12 000 professionals in 370 offices in 55 countries. The firm's Polish subsidiary, with its 24 years of experience, is among the longest operating international real estate teams servicing regional markets. In its Warsaw office and 6 regional offices (in Gdańsk, Katowice, Kraków, Łódź, Poznań and Wrocław), Knight Frank employs over 130 professionals.



Knight Frank offers comprehensive property management services in compliance with domestic regulations and in line with international standards. Our Property Management Department develops and implements stategies tailored to our client's individual needs and requirements in an effort to increase the property value and maximise investment returns. In Poland, Knight Frank manages **commercial properties** with a combined area of **1.3 million sq m.**

If you want to find out more about our commercial property management services, please contact:

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