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**KRAKOW
REAL
ESTATE
MARKET
2015**

KRAKOW 2016

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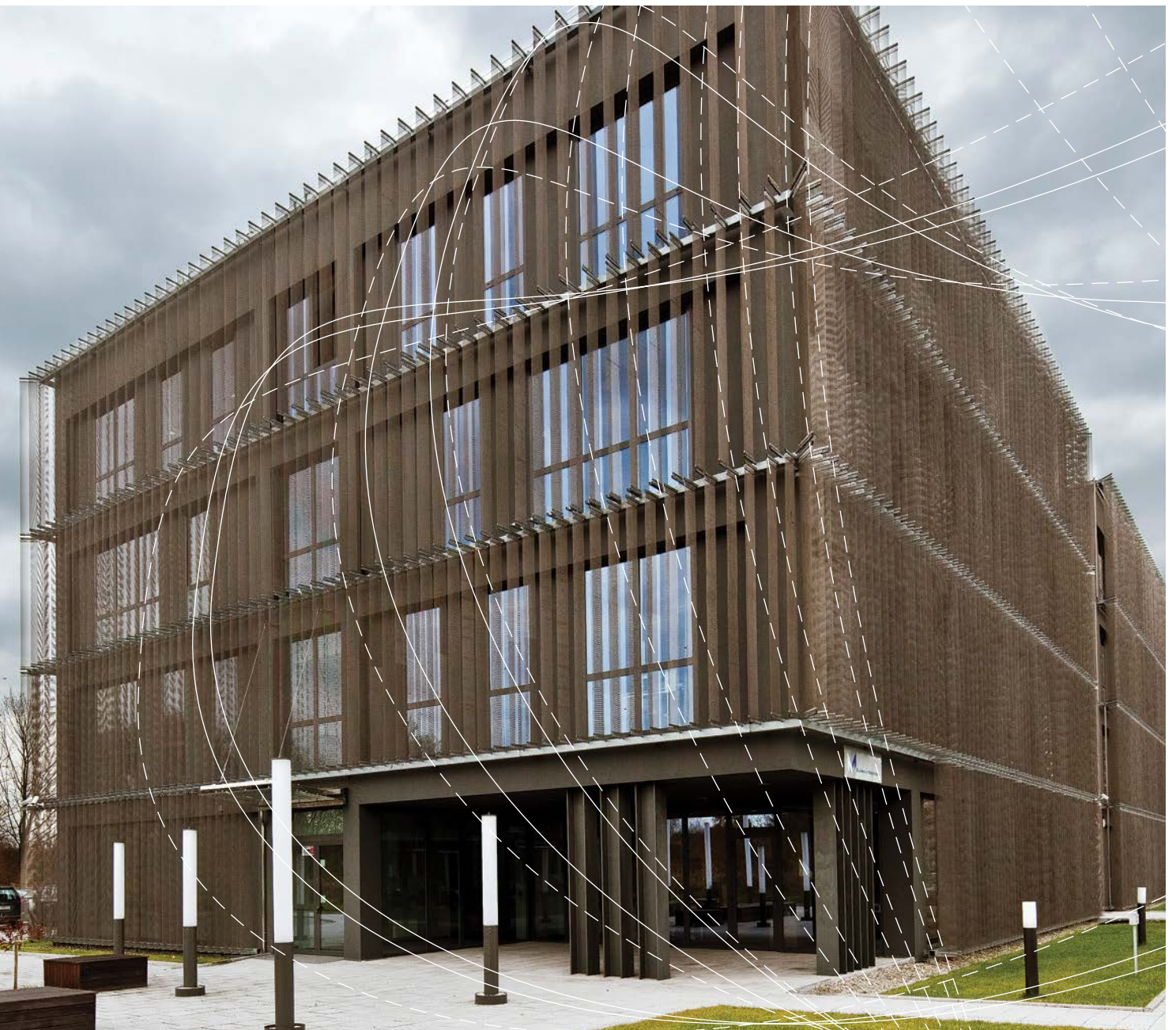
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LADIES AND GENTLEMEN,

Krakow Real Estate Market is a cyclic publication of the Municipality of Krakow. I am pleased to present you with its latest edition. The publication presents a comprehensive analysis of changes with regard to commercial space – offices, hotels, warehouses and shopping centres – which occurred in our city in the past year.

Krakow is a popular destination for business services centres. Companies operating in the services sector, as well as in high technologies, invest here ever more often. Investments planned create demand for new commercial spaces such as offices and warehouses. The appeal of the region in terms of investment generates development in the office and housing market. The rise in the number of tourists visiting the city is reflected in the creation of new hotels. Economic growth fuels the development of the real estate market.

I do hope you will enjoy reading our report, which can also provide you with a closer look at the specific nature of the real estate market and be of assistance in making investment decisions.

Enjoy the reading!

Elżbieta Koterba
Deputy Mayor of the City of Krakow
for City Development

ABOUT KRAKOW

Krakow, Poland's second largest city, is the former capital of Poland and the seat of Polish kings. Currently, it is the best recognized Polish metropolis whose historical centre became part of UNESCO's first World Cultural and Natural Heritage List. The capital of the Małopolska region is widely appreciated by tourists. In 2015, the city welcomed 10 million visitors (in 2014: 9.9 million and in 2013: 9.3 million). *Upcoming destinations*, a list of top 10 rising places created by world's largest travel site TripAdvisor and the recognition of many of the site's followers, confirm Krakow's popularity. The city ranked 8 on the list,

beating Valencia, Spain and Cologne, Germany. The popularity translates into development of tourism infrastructure (hostels, hotels, B&Bs), service facilities, transport network and public buildings, among which ICE Congress Centre and Tauron Krakow Arena deserve a special mention.

In 2015, Tauron Arena hosted over 30 world class cultural and sports events. The Arena is the only facility in Poland to become member of the European Arenas Association, bringing together continent's best venues.





However, sightseeing and entertainment are not the only reasons for visiting Krakow. Many come here on business as well. According to *Poland Meetings and Events Industry Report 2015*, the city ranks 1 in Poland in terms of the number of business meetings, conferences, trade fairs and corporate events. In 2015, nearly 4,000 such events were held in Krakow, making up 21% of all meetings in Poland. The excellent result is linked to the opening of the ICE Congress Centre in 2014. ICE received the award of distinction in the business category of the *Plan Awards 2015*, a competition run by a top Italian architecture magazine.

The Krakow Airport, located 10 km away from the city centre also deserves a mention in this context. It is the largest regional airport in Poland, which handled 4.2 million travelers last year alone. The recent investment projects, including the extension of the passenger terminal and the internal transport network, supported by the construction of a terminal for urban trains connecting the Airport to the central train station, helped adapt the facility to the needs of the growing number of travelers.

Krakow's rich cultural and sporting offer also attract visitors. Krakow is a city of festivals. Over 100 such events are held here annually, nearly half of them with international outreach, e.g. *The Jewish Culture Festival*, *Sacrum Profanum*, *Misteria Paschalia* and *the Film Music Festival*. In 2013, the capital of Malopolska was granted the title of UNESCO City of Literature and in 2014, the Historical Museum of The City of Krakow was the only facility of this type in Poland to receive *Forbes Diamond* as a company whose value has increased most significantly over the recent years.

Religious tourism is yet another reason quoted by those visiting the city. Krakow, where religious tourism is growing, is the world centre for the cults of Divine Mercy, Saint Faustyna and Saint John Paul II. In July 2016, Krakow will host the World Youth Day. It is estimated that approximately 2 million young pilgrims from Poland and around the globe will arrive in the city to be part of the event and meet Pope Francis.

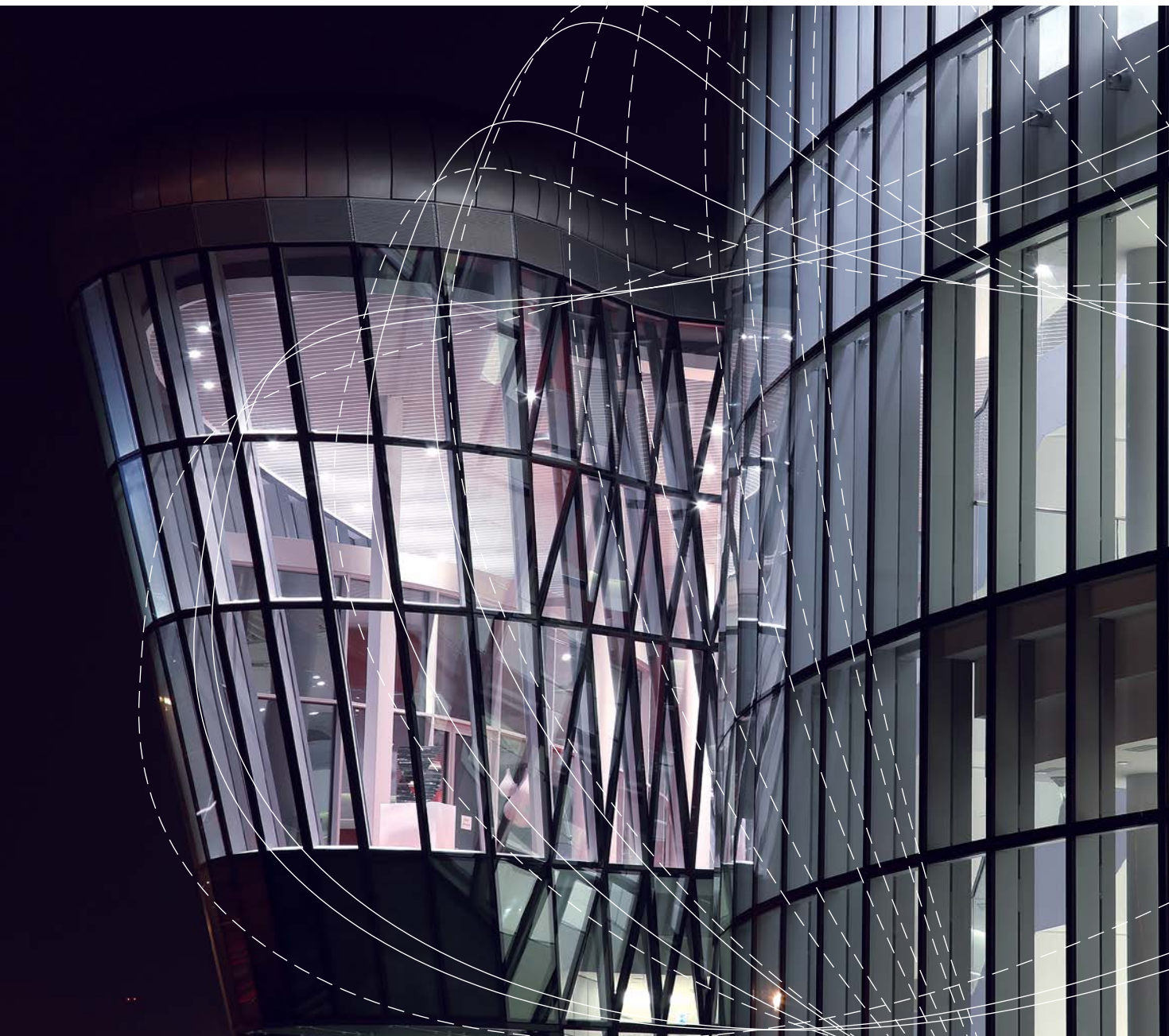
The tourism boom in Krakow is reflected in the dynamic development of the hospitality market in the city. Compared with other Polish cities, Krakow boasts the biggest number of categorized hotels - unsurpassed even by the capital city of Warsaw. Three and four star hotels are particularly numerous in the city.

Apart from the well-developed hospitality market, Krakow is also on top in terms of office spaces available. The capital of Małopolska is the market leader among Polish cities for total office space and the demand is constantly growing. This results from a healthy development of the BPO/SSC sector, of which Krakow is the leader on the local and European market. Over 100 outsourcing companies operating in Krakow have a total headcount of 40,000 and provide services in 36 languages for 94 countries. The economic value generated annually by BPO companies in Krakow totals PLN 4.6 billion.

The latest edition of *Tholons' Top 100 Outsourcing Destinations 2016*,

the list of world's best outsourcing cities, testifies to Krakow's strong position. The capital of Małopolska maintained its 9th position globally, at the same time being Europe's best outsourcing destination.

Krakow's leading position in business services, new technologies and R&D is partly attributable to the availability of excellent workforce. The city is one of Poland's major academic centres with 10 public and 13 private institutions educating over 180,000 people (making up 11% of all students countrywide). Every year, over 50,000 graduates enter the local job market.





Krakow is home to the Polish Academy of Learning, a branch of the Polish Academy of Sciences and the National Science Centre, which promotes activities in the field of basic research. Over 12,000 academics, including over 1.4 thousand professors work in Krakow's institutions of higher education, as well as in a variety of R&D centres and clusters bringing together universities, companies and co-operating scientific institutions.

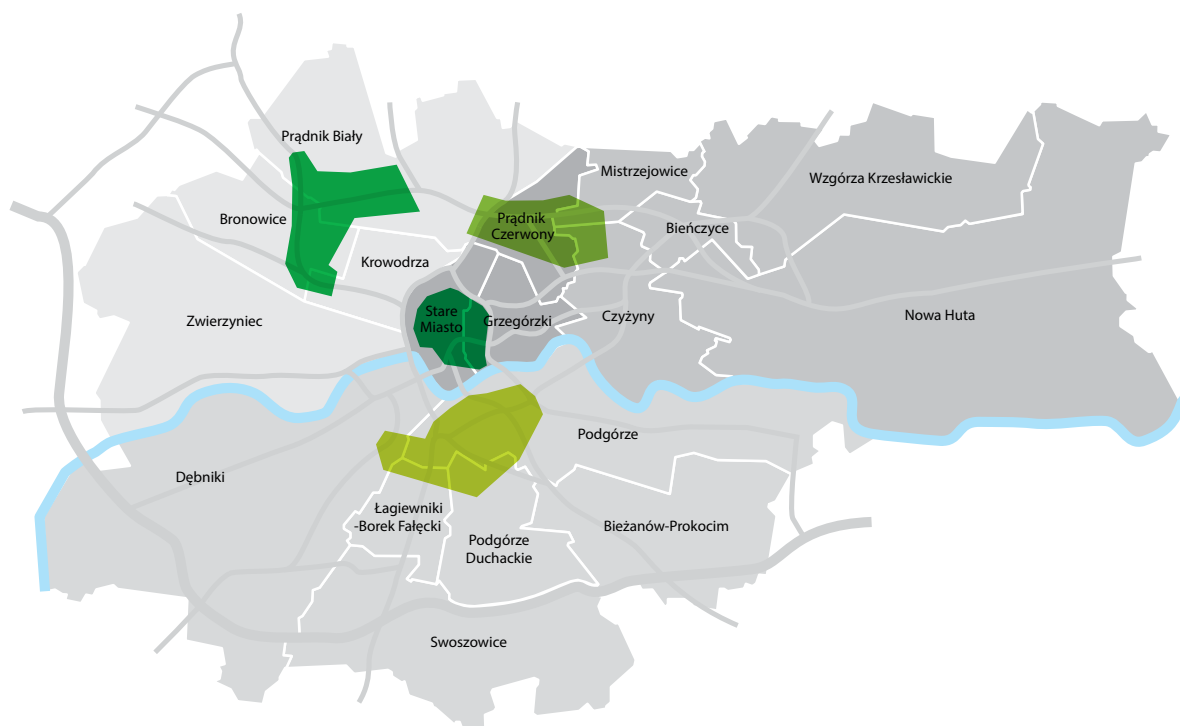
Krakow is very popular with investors. The city's reputation is attributable to its already mentioned characteristics such as: tourist and cultural appeal, newly opened venues for public events, interesting opportunities on the property market,

a well-developed business services sector, availability of highly qualified staff and a strong R&D base. One must also mention the convenient geographical location, favourable demographic indicators, a thriving special economic zone and attractive opportunities addressed at potential investors.

The cooperation of the business sector, science and the local government fuels the development of a smart city, applying the latest technologies, and taking advantage of its social capital in order to ensure that the citizens enjoy high quality of life.

Dynamic development of the Krakow office market reflected in systematically increasing stock and strong demand driven by companies representing the BPO/SSC sector has been continuing in 2015.

It was a record breaking year in terms of volume of lease transactions and number of commenced new office developments, as well as volume of office space under construction. Nevertheless, vacancy rate and asking rents have remained stable, which confirms the positive market sentiment.



Map II.
Areas of office stock concentration in Krakow in 2015

Source: Knight Frank

	Centre	North-West	North-East	South
Rentable stock:	116,500 m ²	114,700 m ²	126,900 m ²	250,900 m ²
Under construction:	33,800 m ²	15,600 m ²	50,400 m ²	110,700 m ²
Vacancy rate:	8.9%	3.3%	0.8%	1.7%
Rental rents:	EUR 13-14.5	EUR 10-14	EUR 10-14	EUR 10-14

Table II.1.
New office developments completed in Krakow in 2015

Source: Knight Frank, PORF

Scheme	Location	Rentable office area (m ²)	Developer/Owner
Bonarka for Business – building E	Puszkarska St.	10,000	TPG Real Estate
Enterprise Park III	Powstańców Wielkopolskich Av.	5,800	Tristan Capital Partners, Avestus Real Estate
FIVE	Bora-Komorowskiego Av.	8,700	Grupa Buma
Aleja Pokoju 5	Pokoju Av.	13,000	Grupa Buma
Dot Office – phase 1 building A	Czerwone Maki St.	7,100	Grupa Buma



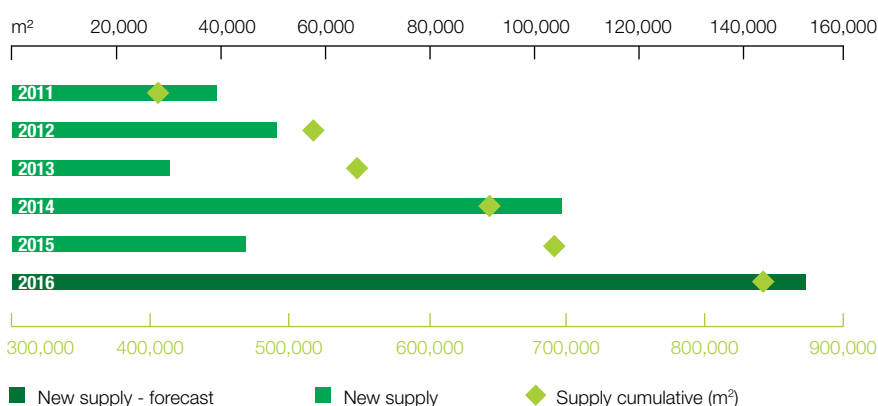
Supply

As of the end of 2015, the total modern office stock in the city was estimated at approximately 769,400 m², of which some 687,700 m² was rentable. Therefore Krakow has maintained its leading position among the major regional office markets ahead of Wrocław (679,800 m²) and Tricity (580,700 m²).

Office space concentrated in the centre of Krakow constitutes 16% of total stock and remaining 84% is situated in non-central locations: the southern part of Prądnik Czerwony district, Prądnik Biały district together with the area along Armii Krajowej Street in the northern part of the city and the western part of Podgórze district, the northern part of Podgórze Duchackie district and Dębniki district in the south. (Map II)

In 2015, five new office developments were completed in Krakow, increasing rentable office stock by 44,600 m². (Chart II.1) Additionally, modernisation of K1 building offering 12,300 m² of office space was completed.

As of the end of December 2015, approximately 210,500 m² of office space in 21 schemes was identified at the construction stage in both single office buildings and next stages of large office complexes. According to developers' schedules, approximately 151,800 m² is due to be completed in 2016, while remaining 58,700 m² should be delivered to the market in 2017. The vast majority (84%) of space under construction is situated outside the city centre.



Demand

Lease transactions signed in 2015 in Krakow achieved an unexpected volume of 156,100 m², which was 34% higher than recorded in 2014 and approximately 65% higher than average annual volume of take-up observed over the five previous years. In 2015, pre-let transactions constituted the most significant share of concluded agreements – 42%. 27% comprised renewals, new agreements accounted to 19%, while remaining 12% was the subject of expansions. (Chart II.2)

Robust tenant activity has been continuing in Krakow since 2012. The demand for office space in the city has been driven mainly by the business services sector and IT companies. Krakow maintained its leading position amongst Polish cities as the first-choice location for companies representing BPO/SSC sector.

Chart II.1.
Annual and cumulative supply of rentable office space in Krakow (2011-2016)

Source: Knight Frank, PORF

As reported by ABSL, foreign service centres located in the capital of Malopolska region employ as much as 35,700 people, which represents 24% of all employees in the sector in Poland. According to Knight Frank's estimations, approximately 44% of modern office stock in Krakow is occupied by companies from the BPO/SSC sector and the share is expected to rise.

offer of available space tenants, to secure larger office units, are supposed to sign pre-lease agreements in the building at the construction stage. As a result, newly-delivered schemes are often fully leased. As of the end of 2015, approximately 28% of space under construction was secured with pre-let agreements.

Vacancy rate

Krakow has maintained the lowest vacancy rate amongst all major Polish office markets since 2012. At the end of December 2015, approximately 26,800 m² of modern office space was available for lease in Krakow, which constituted only 3.9% of rentable stock. (Chart II.3) Due to strongly limited

Rents

Asking rents in Krakow has remained stable in most schemes. Average rents in A-class buildings ranged between EUR 13 and 14.5/m²/month while accommodation in B-class stock is most often quoted between EUR 10 and 12 or PLN 42-50/m²/month. Effective rates are typically 10-15% below the asking level, while rent-free periods

Chart II.2.
Structure of lease transactions concluded in Krakow (2010-2015)
Source: Knight Frank, PORF

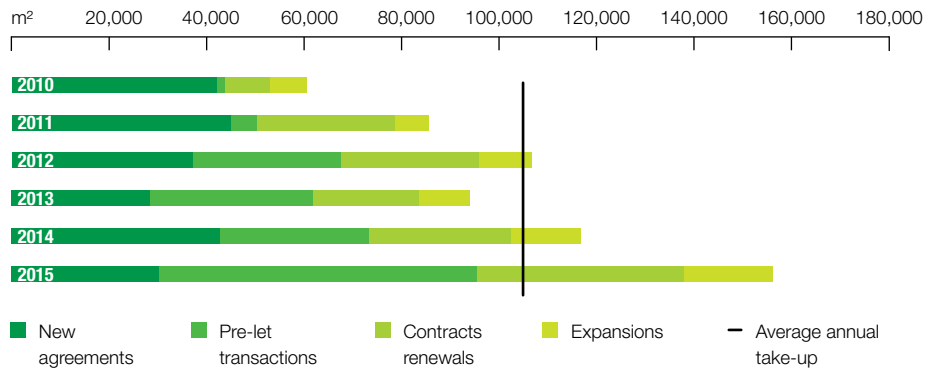


Chart II.3.
Vacancy rate in Krakow (2008-2015)
Source: Knight Frank

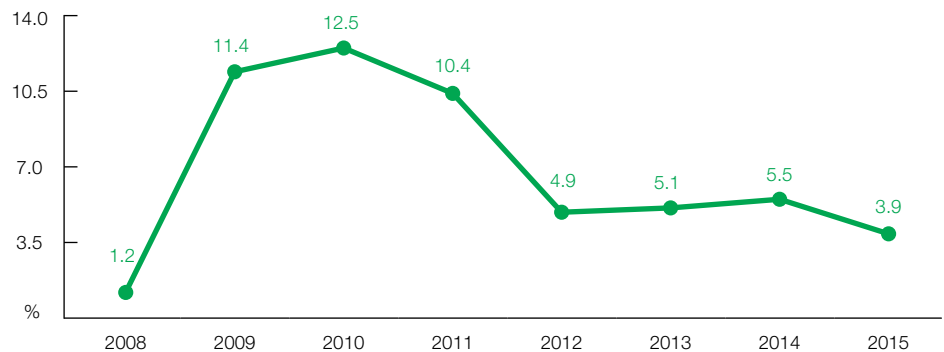


Table II.2.
Selected largest leases signed in Krakow in 2015
Source: Knight Frank, PORF

Date of transaction	Property name	Tenant	Office area (m ²)	Lease type
Q2 2015	Dot Office	Shell	22,000	Pre-lease
Q4 2015	Quattro Business Park	Capgemini	17,100	Renewal + expansion
Q4 2015	CH2M Center	CH2M	13,400	Pre-lease
Q3 2015	Axis	ABB	10,000	Pre-lease
Q4 2015	Vinci Office Building	Akmai	7,600	Renewal + expansion
Q1 2015	Enterprise Park III	Delphi	5,800	Pre-lease

Chart II.4.
Office stock and vacancy rate in six major regional markets in 2015

Source: Knight Frank

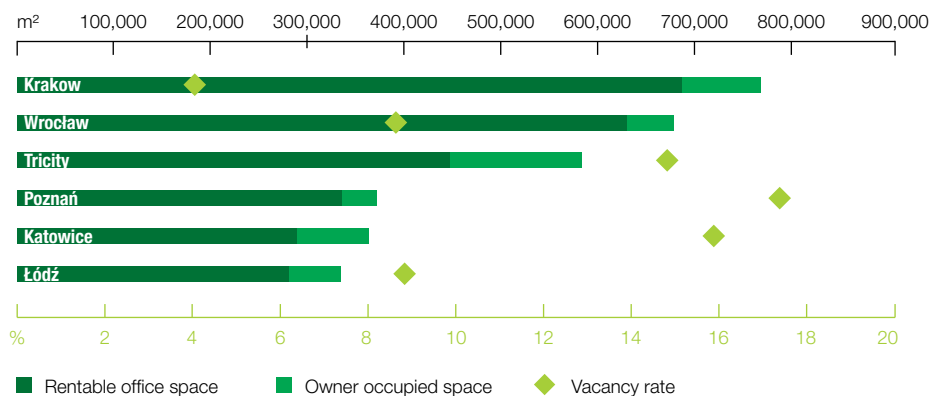


Table II.3.
Investment office transactions in Krakow in 2015

Source: Knight Frank, IRF

Date of transaction	Property name	Size (m²)	Seller	Purchaser
Q4 2015	Bonarka For Business	45,000	TriGranit	TPG
Q2 2015	Enterprise Park	28,200	Avestus Real Estate	Tristan Capital Partners
Q4 2015	Axis	21,000	Skanska	NIAM
Q4 2015	Kapelanka 42	18,000	Skanska	NIAM
Q2 2015	Centrum Biurowe Kazimierz	16,200	Global Trade Centre RE	GLL Real Estate Partners

granted to tenants have varied on average from 3 to 6 months in case of 5-year contracts.

Krakow office market versus other major regional markets

The office sector was a rapidly developing market in major regional cities in 2015. High developers' activity has been accompanied by strong demand in all of the largest cities. Nevertheless, Krakow has maintained its leading position. (Chart II.4) The previous year ended with 278,000 m² of new supply in six major markets (including Krakow, Wrocław, Tricity, Poznań, Katowice, Łódź) and approximately 695,000 m² of office space was identified at the construction stage, of which 30% was located in Krakow. Additionally, a record-breaking volume of 502,000 m² of office space was a subject of lease agreements, of which 31% was signed in Krakow.

The vacancy rate in major regional cities ranges from 3.9% in Krakow to 17.4% in Poznań, and pre-lease volume in Krakow was the largest amongst all major regional markets. Asking rents in Krakow remain at a comparable level to rates in other regional cities.

Krakow also played a significant role in the investment market. In 2015, the investors' interest was focused mainly on regional markets. Over 66% of the office investment volume was spent outside the Warsaw office market and exceeded EUR 880 million. Five transactions were concluded in Krakow, approaching approximately EUR 300 million in total. Therefore the city outperformed other regional markets (including Wrocław, where 3 transactions amounting to EUR 163 million were finalized, which gave the city the 2nd position in regions). (Table II.3)

Being one of the top tourist destinations in Central Europe, Krakow is a charmed city, full of attractions, historical buildings and architectural monuments. The magical atmosphere every year captivates lots of domestic and foreign tourists. Thanks to its cultural wealth, Krakow's Old Town has been registered as one of the 12 sites on the first

UNESCO World Heritage List. The city is also the second largest academic centre in Poland after Warsaw and one of the most important in CEE. It has a substantial role as one of the most important economic hubs in the country focused on professional services for business, new technologies, finance, IT and telecommunications.

Chart III.1.
Number of meetings, conferences and congresses organized in Poland in 2014

Source: Knight Frank on the basis of Meeting industry in Poland 2015, Polish Convention Bureau



	Share	Meetings
Krakow	24%	3,980
Warsaw	22%	3,590
Wroclaw	17%	2,790
Poznań	10%	1,700
Gdańsk	10%	1,680
Katowice	9.5%	1,580
Łódź	7.5%	1,200





According to the Małopolska Organizacja Turystyczna, Krakow has been visited by over 10 million tourists in 2015, of which more than 26% was foreigners. The city is most popular among tourists from UK (16%), Germany (13%), Italy (9%), France (8%), Spain (8%), Russia (4%) and USA (4%).

The attractiveness of the city is strengthened every year by promotion of the city in the international arena. There are over 40 different festivals, 2,500 various performances and concerts taking place in Krakow annually. Its attractiveness has been growing thanks to various developments, including ICE Krakow Congress Centre, EXPO Krakow and Krakow Arena. As a consequence, organization of such events has had a positive impact on individual tourism as well as business tourism but also significantly affects the accommodation market in the city.

According to the Poland Convention Bureau, Krakow was the top Polish city in terms of number of organized meetings in 2014 (incl. conferences, congresses, trade fairs, corporate and incentives events). The meeting industry is well-developed in Krakow and might compete with other European cities such as Prague or Vienna. By newly created venues, the city has opportunities and a great potential for its development on the international stage in the future. (Chart III.1)

The huge success of Krakow as a tourist destination is also possible thanks to improving infrastructure. An increasing number of value accommodation and cheap flights to Krakow contribute to the growing amount of visitors. According to the data compiled by Civil Aviation Office, Krakow Airport served over 4.2 million passengers in 2015 which was the highest number in the history. The availability of Krakow has increased lately due to the re-launch of British Airways and Swiss International Air Lines (both in May 2015). The airport has plans to serve more than 4.5 million passengers in 2016 and to open new flight destinations. The additional advantage is enlargement and restructuring of the Krakow Airport's terminal which was opened in September 2015.

The official opening ceremony was combined with re-launching the train after two-year break of modernization. 2016 might be crucial for the tourism as well as the hotel market in Krakow in terms of international events organized by the city. Krakow will host the World Youth Day in 2016 which is a meeting of youth from all over the world with Pope. According to the forecasts of organizers, the city may attract more than 2 million tourists. Another important event which is going to be held in Krakow is EHF European Men's Handball Championship 2016 (it will be co-organized also by Gdańsk, Warsaw, Łódź, Katowice and Wrocław). Currently, Krakow is also applying to become co-organizer of the UEFA European Under-21 Championship.

Standard	Number of hotels	Number of hotel rooms
★	6	423
★★	14	591
★★★	79	3,845
★★★★	34	3,433
★★★★★	10	1,062
Total	143	9,354

Table III.1.
Structure of the hotel market in Krakow in 2015

Source: Knight Frank





Hotel market in Krakow

The accommodation market in Krakow is constantly growing. There are several types of accommodation (of various standards and categories) that can be found in Krakow. Among others there are officially recognised hotels, youth hostels, boarding houses, excursion hostels or condohotels*. The unregistered accommodation provides strong competition to registered hotels, mostly due to comparable standard for lower prices.

According to the Central Register of Hotels supervised by the Ministry of Sport and Tourism, there were 143 officially categorised hotels, of 1- to 5-star, operating in Krakow at the end of 2015. The accommodation base consisted of more than 9,300 hotel rooms offering over 16,000 beds. (Table III.1)

The market is dominated by 3-star hotels which had still the largest share in the Krakow's hotel market in terms of both number of hotels (55% of hotel stock in the city) and the number of hotel rooms (41%), while 4-star facilities accounted for 24% of hotels and 37% of hotel rooms.

2015 was a significant period for the hotel market in Krakow. There were five new hotel openings in the city. These are 4-star Best Western Plus Q (154 keys), 3-star Q Hotel (89 keys), 3-star Automobil Hotel (23 keys), 3-star Hampton by Hilton (161 keys) and 4-star DoubleTree by Hilton (232 keys). The other significant change in the market was the refurbishment of Efekt Express hotel, completed at the end of August 2015. Best Western is a new operator of the hotel located in Opolska Street.

A noteworthy opening was the hybrid investment of 3-star Hampton by Hilton and 4-star DoubleTree by Hilton which altogether will become an important player on the Krakow meetings market due to the large conference facilities (16 conference rooms with an opportunity to organize meeting for more than 1,200 people).

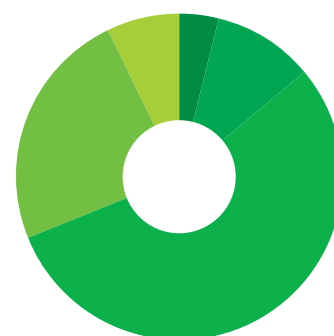
According to the Małopolska Organizacja Turystyczna, hotel facilities are still more popular among foreign tourists than domestic. Nevertheless, the size of both groups in hotels is growing. More than 56.6% of the total number of foreign tourists in Krakow chose hotels for their accommodation in the city in 2015.

(Chart III.3)

Chart III.2.
Structure of the hotel market in Krakow in 2015

Source: Knight Frank

★	4%
★★	10%
★★★	55%
★★★★	24%
★★★★★	7%



* Condohotel is an investment, operating as a hotel or accommodation facility with luxury apartments, offering short term rentals. Condohotel is financed by private investors buying apartments who further gets the profits determined by the appropriate rate of return.

Table III.2.
New hotel openings in Krakow in 2015
 Source: Knight Frank

Hotel name	Number of rooms
DoubleTree by Hilton ★ ★ ★ ★	232
Best Western Plus Q ★ ★ ★ ★	154
Q Hotel ★ ★ ★	89
Automobil Hotel ★ ★ ★	23
Hampton by Hilton ★ ★ ★	161

Chart III.3.
Percentage of domestic and foreign tourists accommodated in hotels in Krakow (2013-2015)
 Source: Knight Frank on the basis of Małopolska Organizacja Turystyczna

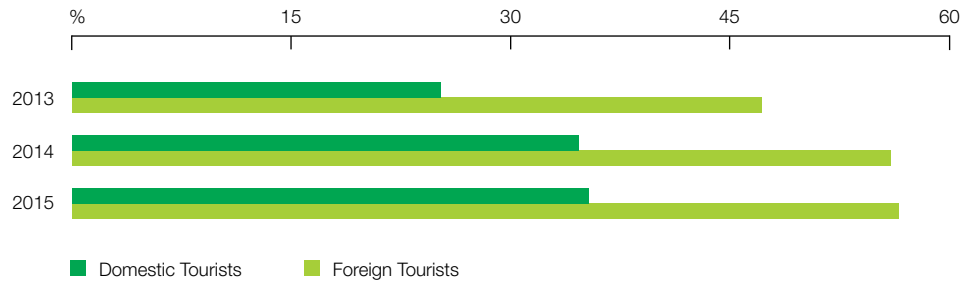


Chart III.4.
Market share of chain and non-chain hotels and hotel rooms in Krakow in Q4 2015
 Source: Knight Frank

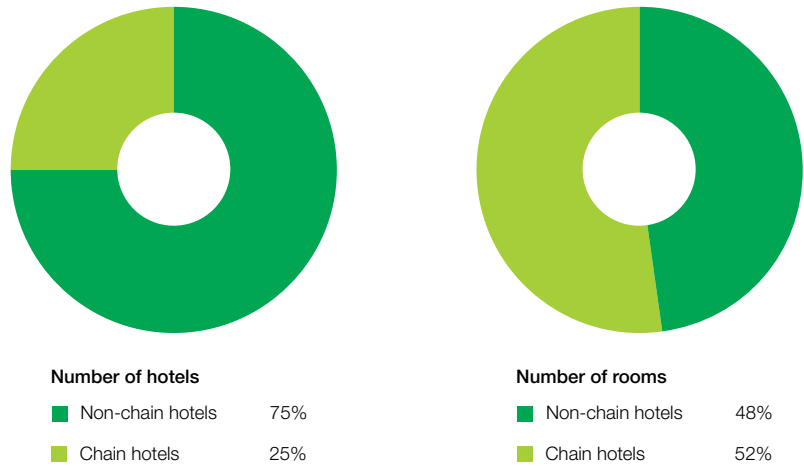


Chart III.5.
Number of hotels in main Polish cities in Q4 2015
 Source: Knight Frank

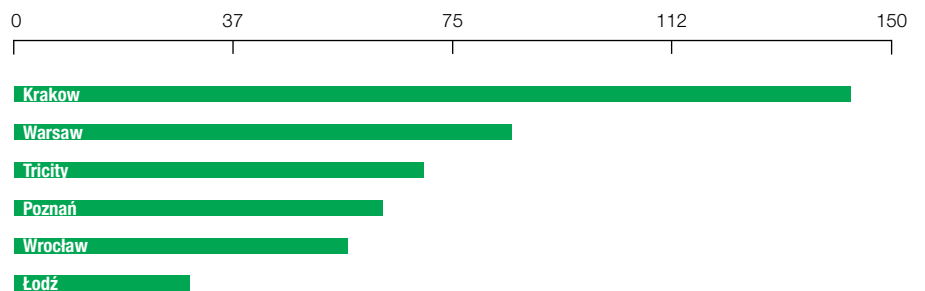
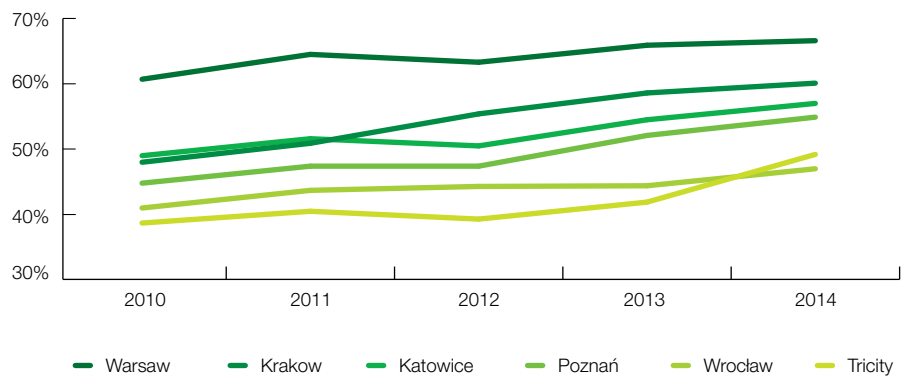


Chart III.6.
Occupancy rate in Polish cities in 2010-2014
 Source: Knight Frank on the basis of Central Statistical Office





Chain hotels in Krakow

Analysis of the hotel market in Krakow shows that significant market share (75%) accounts for non-chain hotels. While chain hotels constitute only 25% of the total hotel stock in the city and include 23 hotels with international brands and only 13 with Polish ones.

On the other hand, hotels operating under foreign brands are usually large investments due to their profitability therefore have a significant share in terms of the number of hotel rooms in Krakow. International chains operating in Krakow are Accor, Best Western, Hilton, IHG, LHG, Puro, Rezidor, Starwood, Vienna International. Polish hotel chains are as follow Dobry Hotel, Donimirski, Likus, Quality System, Qubus, Satoria Group, WAM.

Krakow is perceived as an attractive location for hotel investments by domestic and international hotel chains. There are several new brands, entering the market which are already under construction or at the planning stage. (Chart III.4)

Krakow vs. other Polish cities

In terms of the number of officially categorised hotels, Krakow, with its 143 hotels, is in the first place in Poland. (Chart III.5) The attribute outstanding the local market is the largest number of small luxury hotels when compared to other regional Polish cities. Krakow has ten 5-star hotels, while Warsaw has eleven, Tricity eight, Wrocław six and Poznań only three.

When comparing the performance in the Krakow hotel market with other

Polish cities, it is ranked in second place. A substantial increase in demand for hotel services determines the success of the hotel facilities. (Chart III.6)

The occupancy rate is constantly growing year-over-year, implying positive forecasts for the future for both hoteliers and hotel investors.

Hotels in the pipeline

The number of hotel projects currently under development in Krakow and their quality indicate the significance of the city as a tourist and business destination. At the end of 2015, in accordance with the information provided by investors, the commencement dates of the construction works and other details in most cases of planned projects are still not acknowledged.

Hotel name	Number of rooms	Completion date
Mercure Hotel ★ ★ ★ ★	200	2017 under construction
Ibis Styles ★ ★ ★	70	2017 under construction
Best Western Balice Krakow ★ ★ ★ ★	150	planned
Piastowska Hotel	100	planned
Ferreus	70	planned

Table III.3.
Hotels under construction and at the planning stage in Krakow at the end of 2015

Source: Knight Frank

Krakow is one of the most attractive city in terms of tourism in Poland. With an average annual number of visitors amounting to 9-10 million it has a great development potential for retail market, particularly high street retail. With the total retail stock amounting to 570,000 m², Krakow is the sixth largest market in Poland and

its volume will increase in 2017 due to the completion of Serenada shopping centre. Despite the slight increase in the vacancy rate in Krakow, the demand for retail space remained strong and headline rents stayed at a stable level. A number of retail chains choose Krakow for their first location in Poland.

Chart IV.1.
Total retail stock by the major agglomerations in 2015

Source: Knight Frank

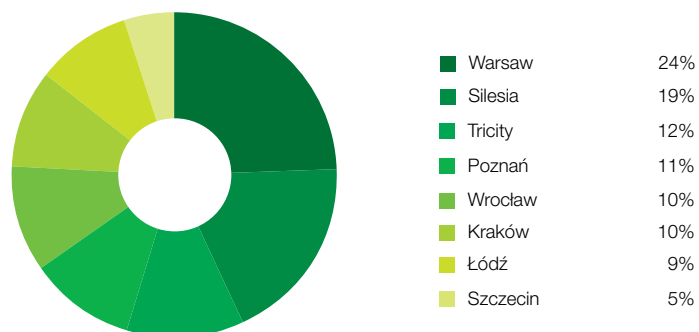
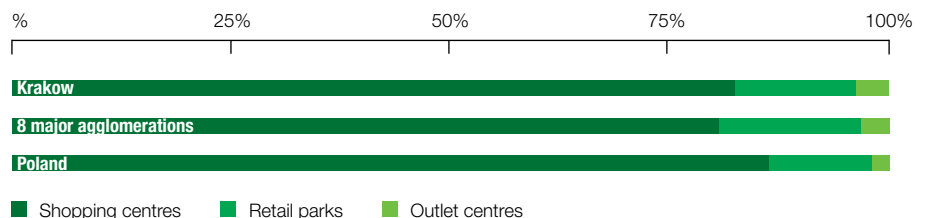


Chart IV.2.
Existing retail stock by formats in Krakow vs. 8 major agglomerations and Poland in Q4 2015

Source: Knight Frank





Retail market in Poland has been developing systematically since the 90's. Since then developers delivered approximately 10.5 million m² of retail space. The largest volume was completed in the eight major agglomerations: Warsaw, Silesia, Tricity, Poznań, Krakow, Łódź and Szczecin – nearly 5.6 million m². The remaining volume is located in the cities with population's below 400,000 citizens: 2.9 million m² in the medium-sized cities (100,000-400,000 residents) and 2 million m² in the small-sized markets (below 100,000 citizens).

The Krakow agglomeration is the sixth largest retail market in Poland in terms of existing space. (Chart IV.1) At the end of 2015, the total retail stock in Krakow, that includes three major retail formats: shopping centres, retail parks and outlet centres, amounting to approximately 570,000 m² which constitutes 10% of the total volume completed in the major markets. The vast majority of retail schemes (fourteen of the sixteen) are located within the Krakow's administrative borders, while two (Futura Park Krakow and Factory Krakow) are situated in Modlniczka.

Similarly to the major markets in Poland, an overwhelming majority of retail stock located in the Krakow Agglomeration constituted traditional shopping centres – over 82% of the total existing supply. The largest schemes of such format are: Bonarka City Center (91,000 m²), Galeria Krakowska (64,000 m²) and Galeria Bronowice (60,000 m²). The remaining share is spread over two retail parks (14%) and one outlet centre (4%). (Chart IV.2)

The retail market in Krakow, similar to Poland as a whole, is becoming more mature and saturated. Currently, there are approximately 650,000 m² of retail space under construction in the country, of which 500,000 m² will be delivered to the major markets, but including one scheme in Krakow. The Mayland's project – Serenada shopping centre is located in the northern part of the city within Dobrego Pasterza Street and Bora-Komorowskiego Avenue. The scheme will consist of over 150 service and retail units totalling approximately 42,000 m². The Serenada shopping centre's completion date is scheduled for 2017

and will be the first scheme completed in Krakow since 2013. According to the latest data, the scheme had been 70% pre-leased at the end of 2015 by a number of retail chains, i.a. LPP Group, Inditex Group and H&M. There will be also an expanded area for restaurants and cafes. Moreover, in the vicinity of the project developer will construct a new road junction which will streamline a car traffic in the whole district.

The saturation of retail space in the Krakow market amounted to 550 m²/1,000 inhabitants at the end of Q4 2015. In 2017, after completion of the Serenada shopping centre, the index will soar to the level of 590 m²/1,000 inhabitants. The saturation level in the city is slightly lower than the average noted for the 8 major agglomerations in Poland (i.e. 590 m²/1,000 inhabitants). (Chart IV.3)

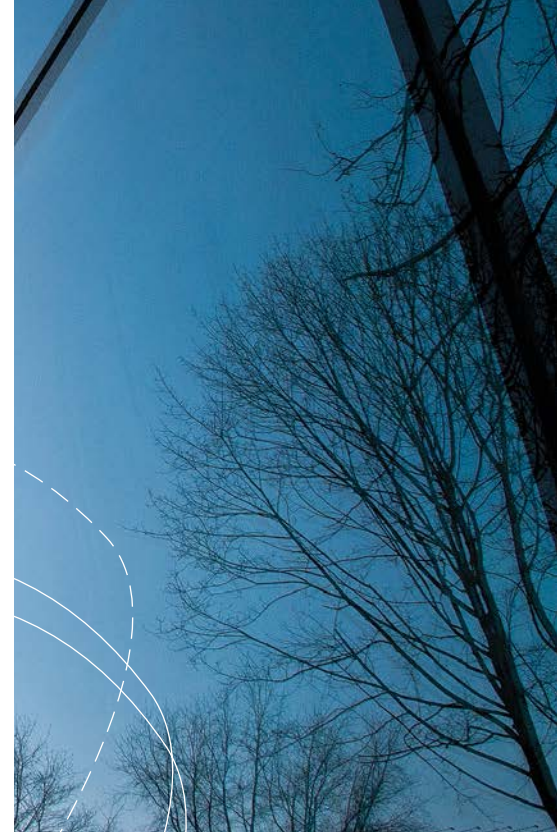
Chart IV.3.
Retail stock and market saturation
in the major Polish agglomerations in 2015

Source: Knight Frank

- Stock*
- ◆ Density (m²/1,000 inhabitants)
- Average saturation in the 8 major agglomerations (m²/1,000 inhabitants)

* including shopping centres, retail parks, factory outlets





Krakow is one of the most attractive city in terms of tourism in Poland. Thus it has a well-developed high street market which is mainly formed by ground floors of residential buildings and tenement houses located around the Main Market (Rynek Główny) and along the streets leading to this area, i.a. Grodzka Street, Floriańska Street and Szewska Street. As a result, the structure of the high street retail is adapted to tourism needs – nearly 40% of the units are occupied by catering retailers. Furthermore, when comparing Krakow with the other major markets in Poland, the city stands out in terms of a number of hotel facilities located on the high streets.

According to the latest data published by the Polish Council of Shopping Centres (PRCH), the vacancy rate in the Krakow's shopping centres stood at 3.7% at the end of June 2015. This is 0.9 percentage points higher than recorded at the end of 2014 and has been caused mainly by vacancies in the older shopping centres. The rate in the city is slightly higher than the average for Poland which amounts to 3.1%. Over the past five years, vacancy rate in Krakow ranged from 2% in December 2011 to 4.8% at the end of 2013, when Galeria Bronowice was completed. Due to the fact that the majority of shopping centres were nearly fully leased prior to delivery, significant fluctuations in the vacancy rates are not expected in the forthcoming years. Reinforced by the fact that Serenada has already been highly pre-leased, more than a year before its completion.

Despite the slight increase in vacancy rates in Krakow, the demand for retail space noted a relatively good pace in 2015. A number of chains have had their debuts in the Krakow's shopping centres, among others Calvin Klein Jeans, Guess and a Tab. Furthermore, a fashion brand Colin's choose Krakow for its first location in Poland. In 2015, a new chain of fitness clubs in Poland – Vitality Fitness, launched its first club in Krakow. Moreover, to stand out against the competition and to be recognised in the market it is essential to extend the range of the shopping centres' offer. In Krakow, one may encounter e.g. a resident service point run by the local authorities or post office in some shopping centres.

Monthly headline rents for retail space in shopping centres have remained stable in Krakow. The highest rents for prime units (premises of below 100 m²) in prime projects were recorded in Warsaw and slightly increased in the last year to EUR 150/m²/month. In regional cities, including Krakow, the rents are lower and depend mainly on a tenant brand, a unit's size, its location within a project and also on a landlord's rental policy. In Krakow, the average headline rents amount to EUR 40-50/m²/month. Much higher rates exceeding EUR 80/m²/month are recorded in the high streets.

In 2015 the investors' and tenants' activity on the warehouse market in Krakow remained relatively high. The upward trend from the record-breaking 2014 was continued what was especially seen in the large volume of new supply in Krakow. The total warehouse stock in

the region increased by nearly 70% over the last year and has a great potential for further development. The limited amount of vacant space and growing demand in the warehouse sector significantly influence the positive forecasts for the market in Krakow.

Chart V.1.
Warehouse stock in Poland by location (Q4 2015)

Source: Knight Frank

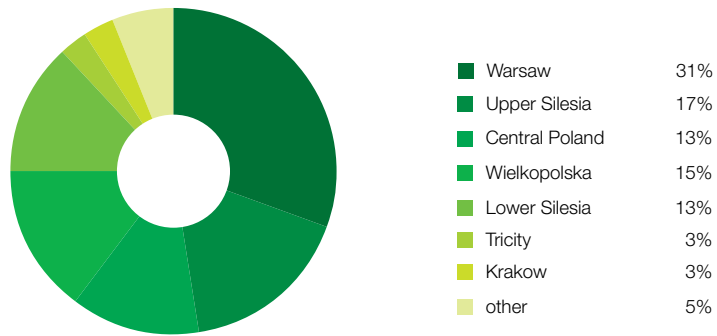


Chart V.2.
Warehouse stock in Krakow (2008-2015)

Source: Knight Frank

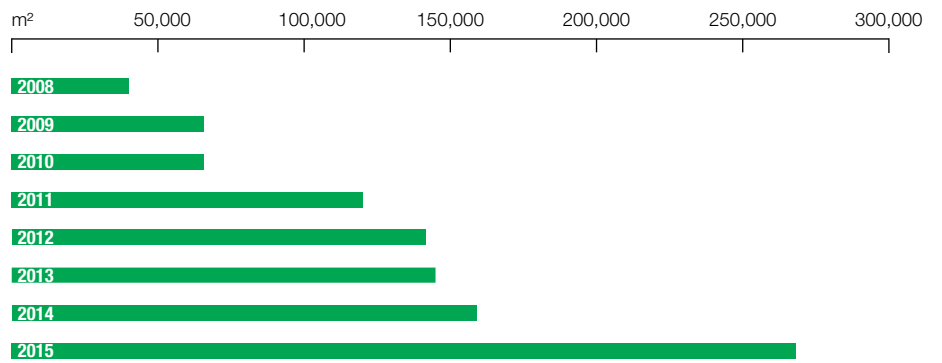
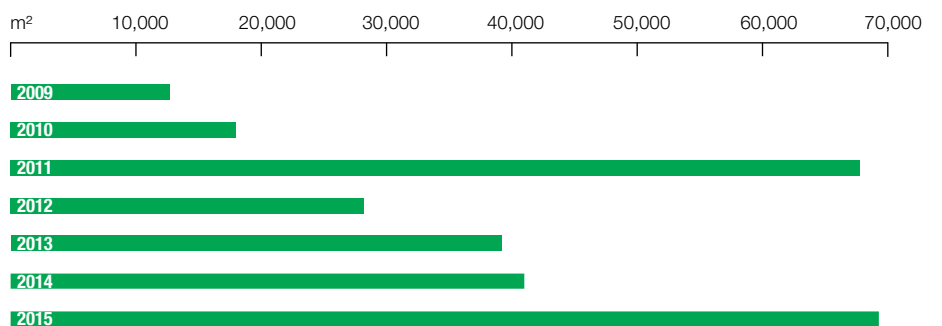


Chart V.3.
Volume of annual take-up in Krakow (2009-2015)

Source: Knight Frank





The warehouse market in Krakow is classified as one of the youngest and smallest within the largest logistic hubs in Poland. In contrast to other areas of warehouse concentration in Poland, the Krakow region is perceived as a local one, with a limited number of undeveloped lands. Moreover, the location of the city nearby the Upper Silesia region, which is the second largest industrial hub in the country, is one of the factors preventing a rapid development of the Krakow warehouse region.

Supply

At the end of 2015, the total warehouse space in Krakow amounted to nearly 270,000 m², which constituted only 3% of total industrial stock in Poland. When compared to the previous year, the volume of warehouse space grew up significantly by nearly 70%. 31% of total stock in Krakow is situated within the city's administrative borders. The other properties are located in neighbouring communes as Modlniczka, Skawina, Olkusz or Jawornik. The main market players in Krakow are the largest investors in the Polish market such as Goodman and Panattoni but also smaller developers like 7R Logistic, BIK, MARR (Małopolska Agencja Rozwoju Regionalnego), RB Logistics and S-logistic Park.

2015 has seen a significant revival in terms of new supply of warehouse space in the Krakow market. The market was boosted by three developers which completed over 40,000 m² of modern logistics space. New supply in Krakow comprises of warehouse schemes within Goodman Krakow Airport Logistic Center with 11,500 m² (Q2 2015), Panattoni Park Krakow II with 15,300 m² (Q2 2015) and first phase of Logistic Centre Krakow Kokotów, developed by 7R Logistic with approx. 13,300 m² (Q4 2015). All projects were built on a speculative basis, nevertheless only one scheme in Krakow-Kokotów offered vacant space at the end of Q4 2015. (Chart V.2)

Results achieved in 2015 in the warehouse sector in Poland have been repeated from the record peak noted in 2014. In spite of lack of supply at the construction stage recorded at the end of 2015, the upward trend is expected to be continued in Krakow. According to the information provided by the investors, who secured investment plots, nearly 184,000 m² of logistics space is planned to be delivered to the Krakow market and the vast majority of developers will constitute the expansions of existing warehouse parks.

Goodman has the largest investment plan, they intend to extend the complex of another 62,000 m². Another example is Panattoni with the extension plans within Panattoni Park Krakow III by 35,000 m². The commencement date of new developments will depend mainly on potential tenants' interest, strong demand and the prevailing economic conditions.

Demand

The upward trend in the warehouse market in Poland has also been noted in the volume of lease transactions in 2015. The total take-up amounted to 2.6 million m², out of which nearly 70,000 m² was signed in Krakow (approximately 3% of the warehouse transactions volume in Poland). Due to the low vacancy rate and the number of planned warehouse properties in the region, the growth of pre-let agreements might be expected. Following new lease contracts signed in the local market, as investors shall be encouraged to develop new projects.

Available Space

In 2015, the warehouse sector faced falling vacancy rates in the vast majority of regions. When compared to the previous year, the volume of vacant space in Krakow has increased by almost three times due to the large volume of new supply and amounted to 9,200 m². Nevertheless, the vacancy rate in Krakow remained one of the lowest among the logistic hubs in Poland. At the end of 2015, the vacant space was offered only in three parks: Logicor Krakow, Logistic Centre Krakow-Kokotów and MARR Business Park. (Chart V.4)

Rental Rates

Monthly asking rents for warehouse space depend on several factors, e.g.: the project's location (access to road infrastructure), distance to the city centre, lease period, size of leased space or technical specification of the premises.

Asking rents in Krakow strongly depend on location of the warehouse, whether it is situated within the administrative borders of the city or outside the city. After Warsaw (Zone I), Krakow is perceived as the most expensive location for logistics. The industrial properties located within Krakow administrative borders, mostly designed as a SBU (Small Business Units) offered warehouse space at EUR 4.00-4.50/m²/month. Larger schemes, built as big-box are usually slightly cheaper and the asking rents in the Krakow region were quoted at EUR 3.50-3.90/m²/month at the end of 2015.

Chart V.4.
Vacancy Rate in Krakow (2008-2015)

Source: Knight Frank

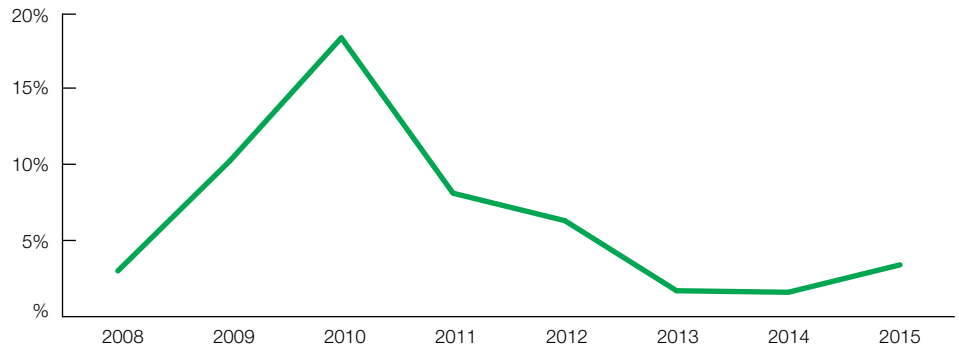


Table V.1.
Selected warehouse transactions in Krakow (2014-2015)

Source: Knight Frank

Project name	Developer	Tenant	Leased space (m ²)/ Lease type	Date of transaction
Panattoni Park Krakow III	Panattoni	Confidential	7,300/ pre-let	2015
Krakow Airport Logistics Centre	Goodman	Confidential	6,000/ new lease	2015
Panattoni Park Krakow III	Panattoni	Confidential	4,600/ pre-let	2015
Logicor Krakow	Logicor	I.D.C. Polonia S.A.	3,700/ renewal	2015
Krakow Airport Logistics Centre	Goodman	KMC Services	13,000/ expansion	2014
Krakow Airport Logistics Centre	Goodman	Confidential	11,200/ new lease	2014
Krakow Airport Logistics Centre	Goodman	Bonito.pl	4,100/ new lease	2014
Centrum Logistyczne Krakow II	BIK S.A.	G4 Garage	2,700/ new lease	2014

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