KRAKOW REAL ESTATE MARKET 2015 P.II

KRAKOW 2016

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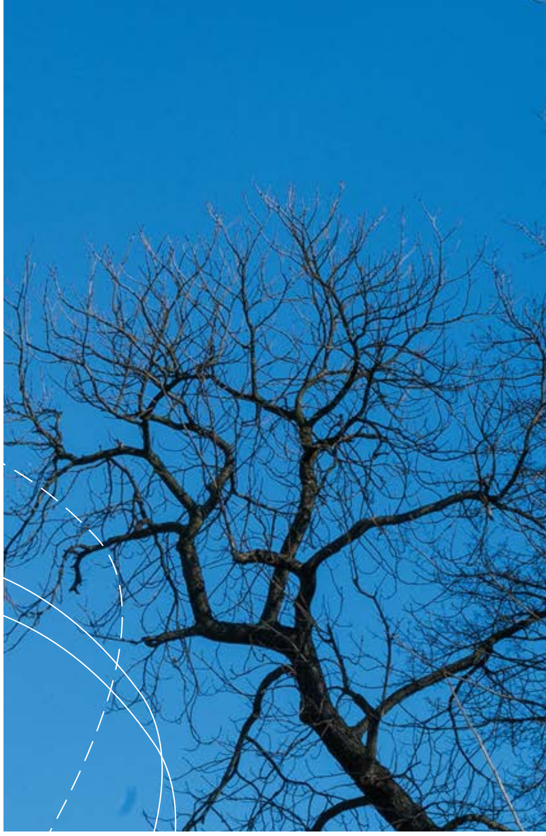


PRIMARY HOUSING MARKET

According to data from the Office of Statistics in Krakow, during the 12 months of 2015, 6,521 completed apartments were ready for occupancy in the capital of the Małopolska Region, i.e. 11% less than in the previous year and more than 7% less than two years before. A total of over 32.5 thousand apartments have been commissioned for use over the past five years in Krakow. During the same period, the construction of more than 47.3 thousand apartments was started. In 2015 alone, construction of 10,942 apartments was started, i.e. over 18% more than a year before and more than 26% more than in 2013. (Chart 1)

In 2015, there was also a significant increase in the number of apartments for which either building permits were issued or applications were filed with the construction design. The number of such apartments totalled 8,259, nearly 48% more than in 2014 and more than 9.5% more than two years previously. Almost 86% of all of the apartments completed in 2015 were apartments for sale or rent. Slightly more than 14% of apartments completed were private constructions.

Furthermore, 4 public apartments were commissioned for use, whereas other forms of construction (cooperative, capital, tenement housing) included not a single apartment being commissioned for use.

Distribution of investments

According to the Dominium.pl portal, at the end of December 2015, the majority of investments were offered within the Podgórze region. They accounted for 41% of all of the investment projects in Krakow. About 10% less was the share of investments in the region of Krowodrza. An even smaller number of investments were offered in Śródmieście (16%) and the percentage was also lower, 12% – in Nowa Huta. (Chart 2)

In comparison to the previous year, Krakow's portfolio recorded an increase in the share of Krowodrza and a decrease in the share of Śródmieście. The shares of Podgórze and Nowa Huta remained at a similar level.

Distribution of flats

At the end of 2015, the Dominium.pl base included over 7,860 developer apartment's available in Krakow. It can be estimated that the total number of apartments available on the market was close to 9 thousand. In relation to 2014, a small percentage increase was recorded in the number of offers on the primary market.

The largest part of the property on offer was located in three districts – Prądnik Biały (IV), Podgórze (XIII) and Dębniki (VIII). In total, these districts contained more than 41% of all apartments. Large disparities in the distribution of the primary market may be indicated by the fact that nearly 90% of all new apartments were offered in 10 districts, and just over 10% in the remaining 8 districts. Districts with a relatively large selection of apartments also include Prądnik Czerwony (III), Podgórze Duchackie (XI), Grzegórzki (II), Czyżyny (XIV), Bieżanów-Prokocim (XII), Mistrzejowice (XV) and Krowodrza (V). The smallest quantity of property on offer was located in Bieńczyce (XVI), Łagiewniki-Borek Fałęcki (IX), Wzgórza Krzesławickie (XVII), Stare Miasto (I) Zwierzyniec (VII) and Nowa Huta (XVIII). In comparison to the previous year, slight increases were recorded in the shares of Dębniki (VIII), Prądnik Biały (IV) and Podgórze Duchackie (XI), decreases were recorded in Stare Miasto (I), Grzegórzki (II) and Czyżyny (XIV). These changes, however, were insignificant. (Chart 4)

Just as was the case with the distribution of investments, the most apartments are on offer in the district within Podgórze (almost 43% of all apartments) and Krowodrza (over 25%). A smaller part of the property on offer was grouped in the districts lying in the city centre (over 18% of all apartments) and Nowa Huta (over 13%). In comparison to 2014, the share of apartments available in Krowodrza and Podgórze has increased, and the share in Śródmieście has decreased. (Chart 3)

Chart 1.

Number of completed apartments ready for occupancy, for which permits were issued, or for which applications were filed with the construction design and of apartments the construction of which was started in Krakow

Source: Based on data of the Office of Statistics in Krakow

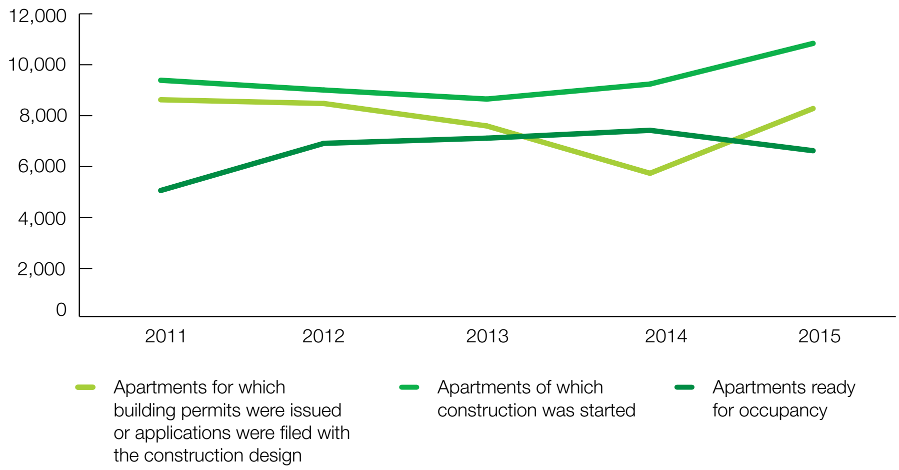


Chart 2.

Distribution of offered housing investments in Krakow (XII 2015)

Source: Dominium.pl

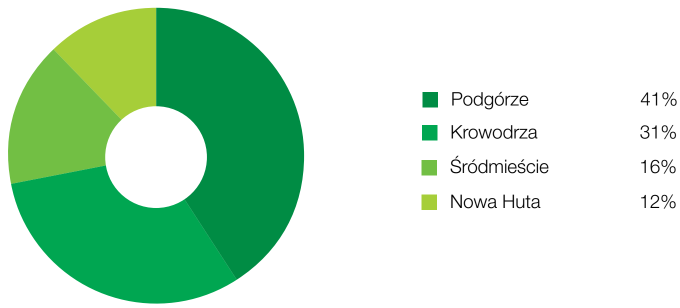
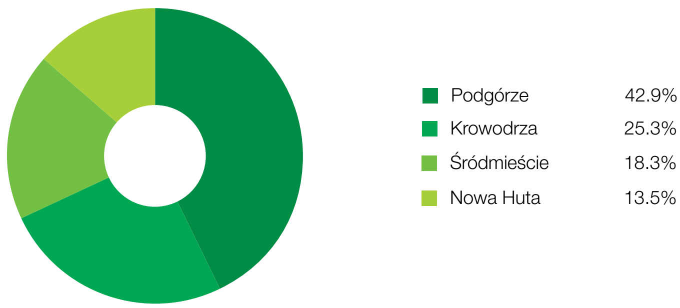


Chart 3.

Distribution of apartments on offer in Krakow (XII 2015)

Source: Dominium.pl



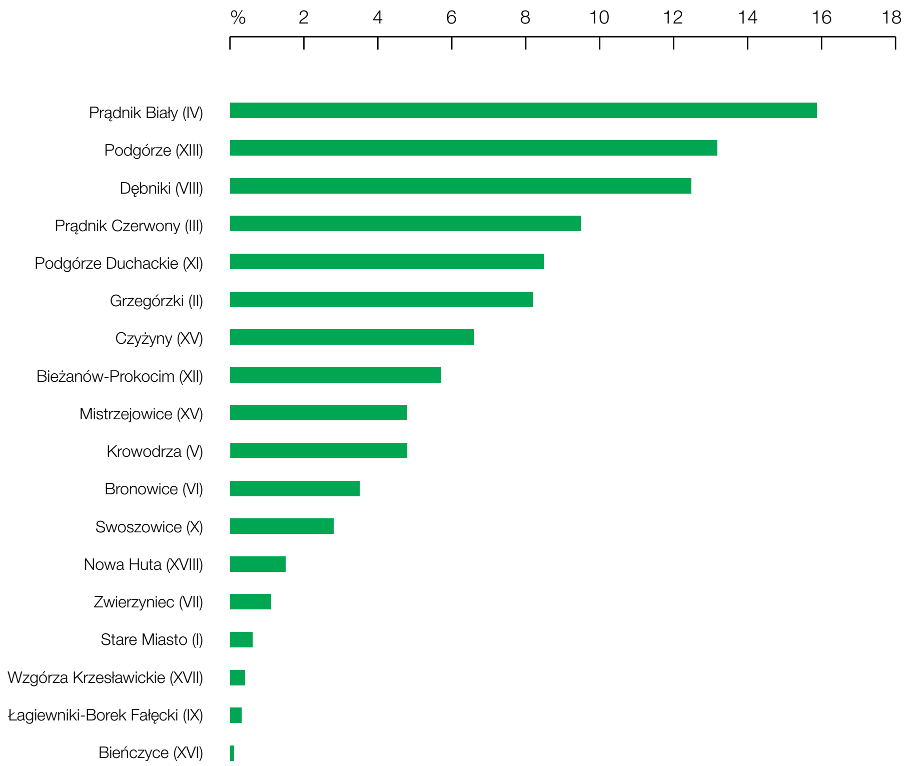


Chart 4.

Distribution of apartments on offer in the Krakow administrative districts (XII 2015)

Source: Dominium.pl

At the end of 2015, approximately 28% of all of the available property had the status of completed and a similar number was envisaged for completion in 2017 and later. Most of them, approx. 45%, were scheduled for 2016. A year earlier, the percentage of completed apartments was approx. 4% higher. (Chart 5) In December 2015, in proportion, the greatest number of completed apartments could be found in Podgórze and Nowa Huta, and a smaller number in Śródmieście and Krowodrza. The latter two areas were characterized by a high (over 50%) percentage of apartments planned for completion in 2016. As compared to 2014, the percentage of completed apartments increased only in Nowa Huta. In other areas of the city, the percentage of apartments available for immediate occupancy was lower than in the previous year. (Chart 7)

Price structure

According to data from Dominium.pl, determined on the basis of housing advertisements which included prices, in December 2015, the largest share, in the price structure of apartments, 73%, belonged to those within the price range of PLN 5 to 7 thousand/m^2. There were fewer (approx. 16%) apartments for which one needed to pay from PLN 7 to 9 thousand/m^2 and the cheapest apartments, whose prices did not exceed PLN 5 thousand/m^2 (approx. 9%). The smallest, about 2-percent share of the pricing structure of Krakow's apartments were those costing more than PLN 9 thousand/m^2. It should however be noted that, in the case of some more expensive apartments, advertisements do not include prices, so their actual share in the price structure can in reality be slightly greater. (Chart 6)

At the end of 2015, the highest average asking prices were traditionally recorded in the Stare Miasto district (I). It was the only district where the average price was higher than PLN 10 thousand/m^2. The average range of prices between PLN 7 and 9 thousand/m^2 was to be found in three districts, starting with the most expensive, they were: Zwierzyniec (VII), Krowodrza (V) and Grzegórzki (II).

On average, apartments in the range of PLN 6 to 7 thousand/m^2 are waiting for buyers in Bronowice (VI), Podgórze (XIII), Dębniki (VIII) Prądnik Biały (IV), Prądnik Czerwony (III) and Łagiewniki (IX).

The largest group was that of the districts where average housing prices fluctuated between PLN 5 and 6 thousand/m^2. This group included the districts within Nowa Huta and Podgórze: Czyżyny (XIV), Podgórze Duchackie (XI), Bieńczyce (XVI), Nowa Huta (XVIII), Prokocim-Bieżanów (XII), Swoszowice (X) and Mistrzejowice (XV). Only in the Wzgórza Krzesławickie district (XVII) did the average prices of new apartments not exceed PLN 5 thousand/m^2. (Chart 8)

As mentioned above, in the lowest-priced areas of the city, could also be found apartments which matched the parameters for making use of subsidies under the Apartments for Young People program. The average price for Krakow, calculated on the basis of the average prices in the districts, was PLN 6,547/m^2 in December 2015. The price was less than 0.5% lower than in the previous year. In relation to December 2014, price changes in individual districts did not exceed +/- 5%.

The largest, double-digit percent positive changes were recorded in Nowa Huta (XVIII) and the largest minus in Zwierzyniec (VII). In these districts there are, however, relatively few apartments and even a small change in supply can significantly affect the average cost in the district.

Distribution of apartments by number of rooms

The property on offer on the primary residential market in Krakow is dominated by 2-bedroom apartments. At the end of December 2015, such apartments accounted for over 48% of the total of available apartments. Apartments with 3 bedrooms ranked second, accounting for almost 32%. 1-bedroom apartments ranked third, with a total of 12%. The remaining 10% were mostly 4-bedroom apartments and those with even more bedrooms.

Compared to 2014, it is possible to see a 5-percent increase in the proportion of 2-bedroom apartments and a comparable decline in the proportion of 3-bedroom apartments. In terms of apartments with the smallest and the largest number of bedrooms, there wasn't much change. (Chart 9)

An analysis of the breakdown of apartments according to the criterion of size shows that, at the end of 2015, Krakow's property on offer included the greatest number of flats from 40 to 60 m^2. These apartments accounted for over 55% of all those on sale. A significant percentage of apartments (in excess of 10%) was also recorded in the range of 30 to 40 m^2 and from 60 to 70 m^2. The smallest apartments (30 m^2) accounted for over 4%. Apartments with a size greater than 70 m^2 accounted for less than 12% of the total available.
In comparison with the results from the previous year, an increase of several percent was reported in the total of apartments in the range of 40-50 m^2 with a comparable decrease in the proportion of apartments in the range from 60 to 80 m^2. (Chart 10)

Summary

According to the consistent evaluation of analysts, 2015 can be described as very good year for the new housing market. A large supply of housing on offer (especially in the first three quarters of the year) was offset by a large demand. Such a balance in the market caused price stability. Demand was stimulated by low interest rates (increasing the availability of credit) and the Apartments for Young People program.

Chart 5.
Deadlines for apartments in Krakow (XII 2015)
Source: Dominium.pl

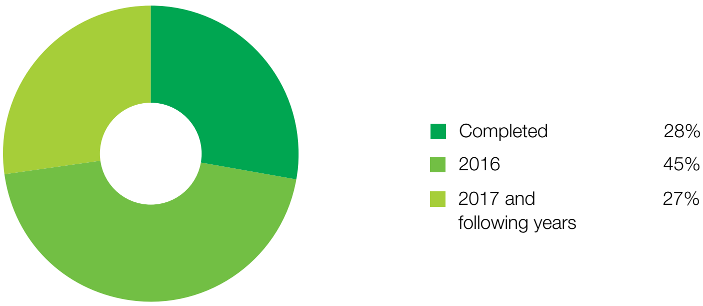
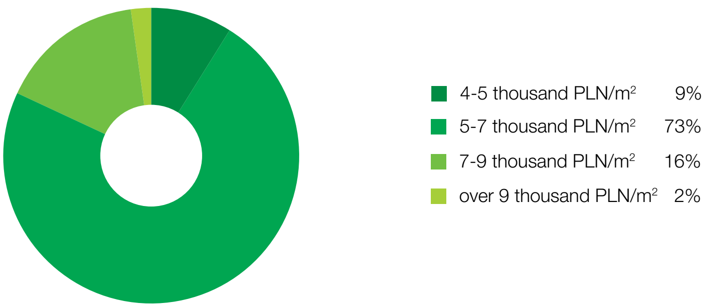


Chart 6.
Price structure of apartments in Krakow (XII 2015)
Source: Dominium.pl



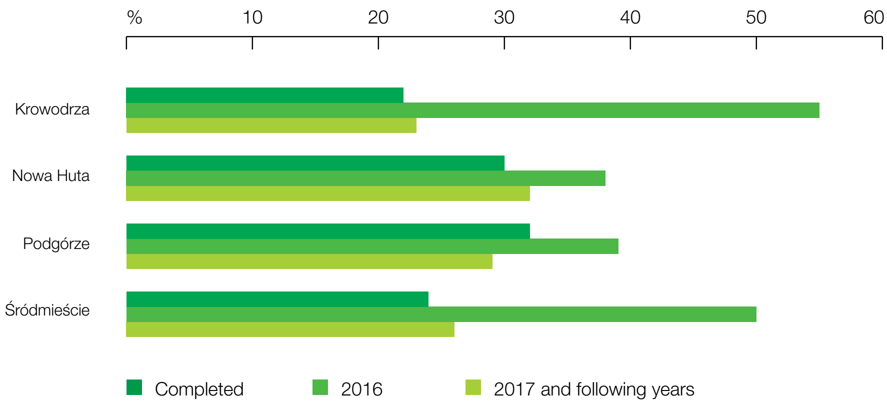


Chart 7.

Distribution of housing in the areas of Krakow in terms of their realization (XII 2015)

Source: Dominium.pl

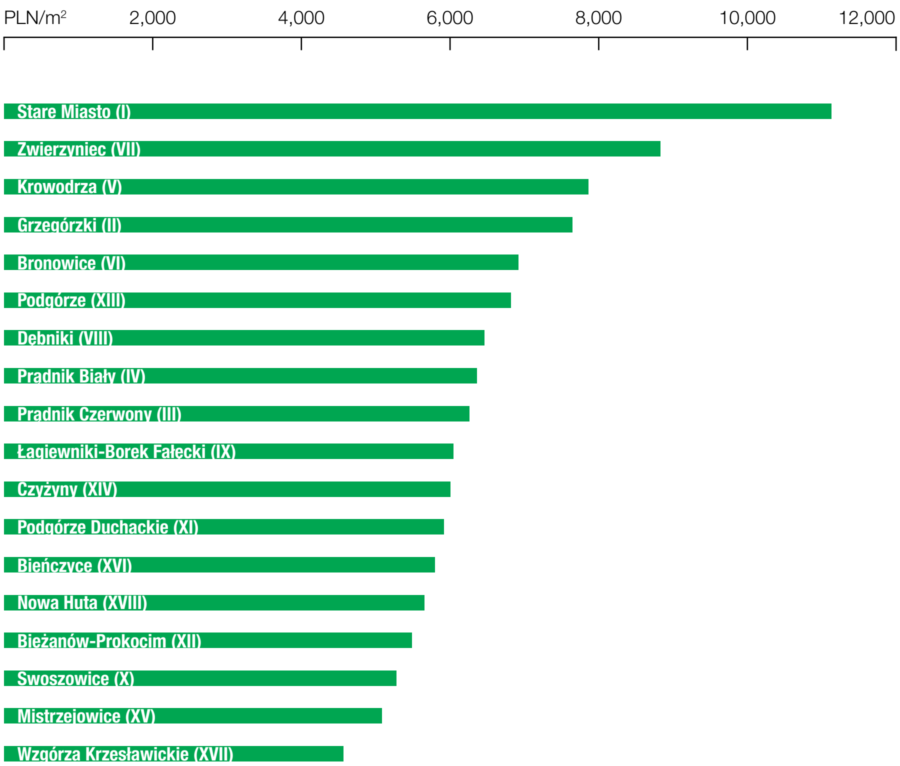


Chart 8.

Average asking prices of new apartments in the districts of Krakow (XII 2015)

Source: Dominium.pl

A significant proportion of apartments was also bought in the form of investments (as an alternative to a bank deposit), for cash.

Despite the fact that fewer apartments were commissioned in 2015 than in previous years, there were, however, more apartments, the construction of which had been started and for which permits were issued, which will certainly increase the statistics of housing completions in subsequent periods.

The offer of new investments and housing was largely concentrated in the area of Podgórze and Krowodrza (over 70% of the offered investments). Fewer offers could be found in Śródmieście and Nowa Huta. At the end of 2015, apartments scheduled for 2016 prevailed and those ready for occupancy accounted for approx. 28%. The percentage of the fewest ready for occupancy was available in Krowodrza and Śródmieście.

The property on offer was dominated by apartments within the price range of PLN 5-7 thousand/m^2. The most expensive districts in Krakow were: Śródmieście (I), Zwierzyniec (VII), Krowodrza (V) and Grzegórzki (II), and the cheapest included: Wzgórza Krzesławickie (XVII), Mistrzejowice (XV), Swoszowice (X) and Prokocim-Bieżanów (XII). At the end of the year, most of the apartments available had two or three bedrooms (together they accounted for approx. 80% of the offer) and a size of between 40 and 60 m^2 (over 55% of the total on offer).

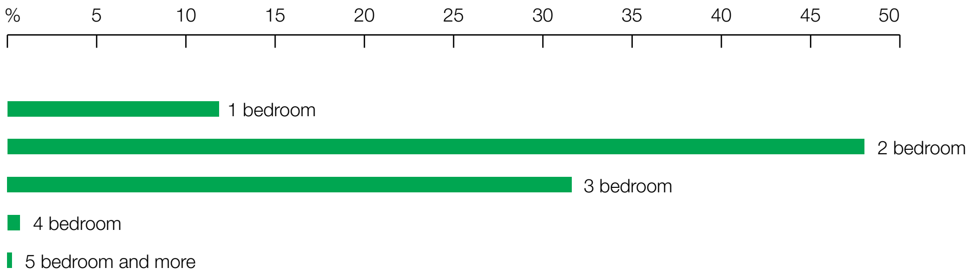


Chart 9.

Distribution of apartments by number of bedrooms (XII 2015)

Source: Dominium.pl

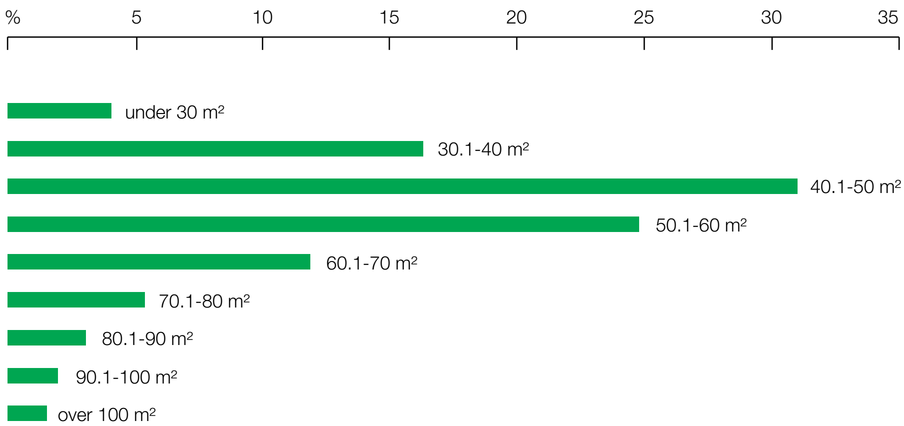
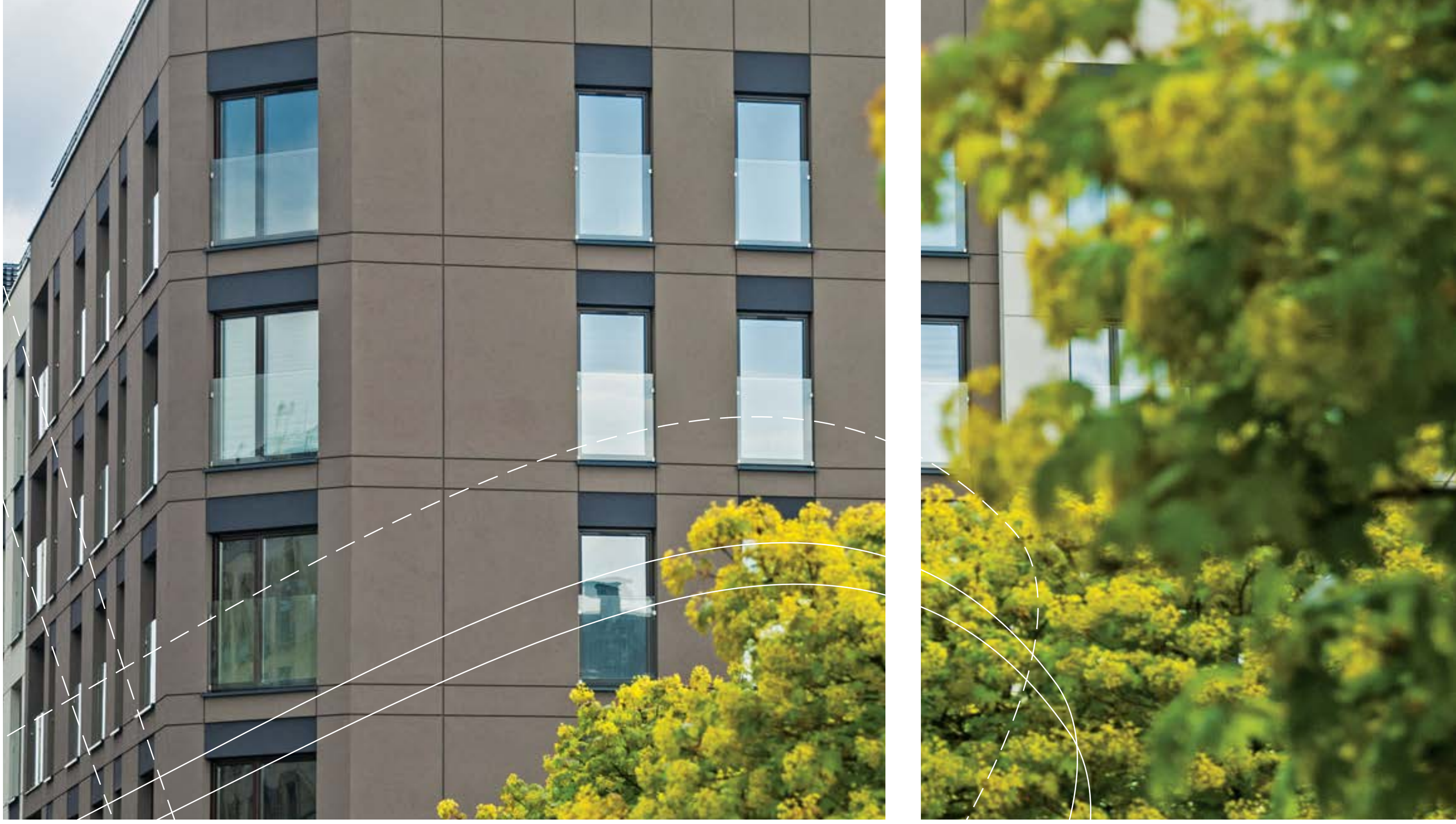


Chart 10.

Distribution of apartments according to size (XII 2015)

Source: Dominium.pl



SECONDARY HOUSING MARKET – ASKING PRICES

An analysis of the asking prices of housing on the secondary market in Krakow in 2015 confirmed the stable price trend in the capital of the Małopolska Region. When offer prices of apartments on the secondary market are compared (year on year), it appears that the average asking price in 2015 remained at a level very close to that of 2014 and amounted to PLN 6,965/m^2. The stability of the so-called Krakow second-hand real estate market is also confirmed by the analysis of housing prices in each quarter of last year. In the first quarter, the average asking price of apartments on the secondary market in Krakow, according to the KRN.pl portal, amounted to PLN 7,011/m^2. It was the only quarter of 2015 when the average asking price of apartments on the secondary market exceeded the limit of PLN 7,000. In the fourth quarter of the past year, asking prices of apartments amounted to PLN 6,995/m^2, which means that they reached a level close to the average asking price for the whole of 2015. (Chart 1)

The stable price level over the past year confirmed that the market in Krakow is resistant to external factors. An analysis of asking prices from the secondary market, among others, showed that price formation was not affected by the fact that the government programme Apartments for Young People last year covered the so-called second-hand properties. This is mainly due to the fact that the price limits set out in the programme differ substantially from the prices on the Krakow market. The result of this is the fact that the number of apartments on the secondary market which are eligible for the programme in the city is negligible: according to data from the KRN.pl portal, since the coming into force of the amendment to the Act, it has been approx. 2-3% of the total offer of apartments on the secondary market. It is no surprise therefore that the government's support including also second-hand apartments did not play a significant role in the price formation of this type of property in Krakow. While the Apartments for Young People programme had no significant effect on the prices of apartments on the secondary market, it did visibly influence the attitude of buyers who are aware that the funds envisaged by the legislature for the implementation of the government programme of subsidies are limited, they speeded up their purchasing decisions.

2015 also brought no major changes in terms of the formation of housing prices on the secondary market in the different districts of Krakow. The most expensive areas of the city are still: Stare Miasto (I), Zwierzyniec (VII) and Krowodrza (V). The specifics of the Śródmieście district are also worth remembering – properties for sale in this part of Krakow are often apartments in historic buildings in the immediate vicinity of the Main Market Square, belonging to the so-called higher-end housing. Hence the large disparity in average asking prices located in the district, as compared to apartments in other areas of the city. Prestige is a factor that is also very important in the case of properties located in the heart of Zwierzyniec, occupying second position in the ranking of average asking prices in different districts of Krakow.

The relatively high prices in 2015 remained the same in Bronowice (VI), Grzegórzki (II) and Dębniki (VIII), in-demands among customers. Prices of properties located in these parts of the city have consistently been for several years at a high level, over PLN 7,000/m². Data from the KRN.pl portal shows that the purchase of apartments on the secondary market in these parts of Krakow in 2015 was at a cost of, respectively PLN 7,692/m², PLN 7,582/m², PLN 7,045/m².

The cheapest districts with the lowest prices for apartments on the secondary market are invariably the eastern and the southern districts: Nowa Huta (XVIII), Wzgórza Krzesławickie (XVII), Bieńczyce (XVI) and Swoszowice (X). (Chart 2)

Housing supply

The highest number of apartments for sale on the secondary market was recorded in 2015 in the districts: Krowodrza (V) – 11.3%, Prądnik Biały (IV) – 11.1% and Stare Miasto (I) – 11%. It is worth noting that these districts have, for several years, been among the areas of Krakow where housing supply on the secondary market has been relatively high. It is also worth noting that Krowodrza (V) and Stare Miasto (I), being at the forefront, are the districts popular among buyers, being at the same time regions within which relatively few new residential projects are carried out.

The areas with the lowest housing supply on the secondary market still include: Swoszowice (X), Bieńczyce (XVI) and Wzgórza Krzesławickie (XVII). Their relatively low housing supply on the secondary market is due to the fact that these are areas with a lower intensity of multifamily housing, with a predominance of single-family housing. (Chart 3)

Chart 1.

Average asking prices of apartments on the secondary market in Krakow by quarters in 2015

Source: KRN.pl portal

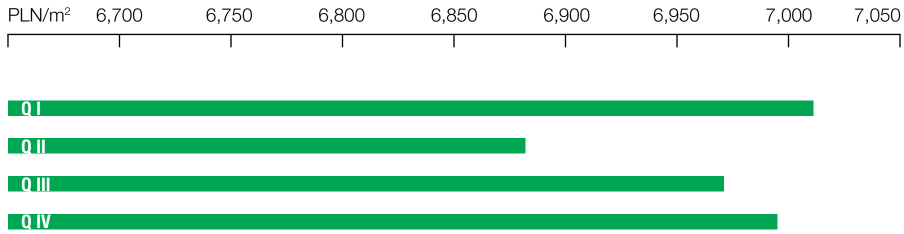
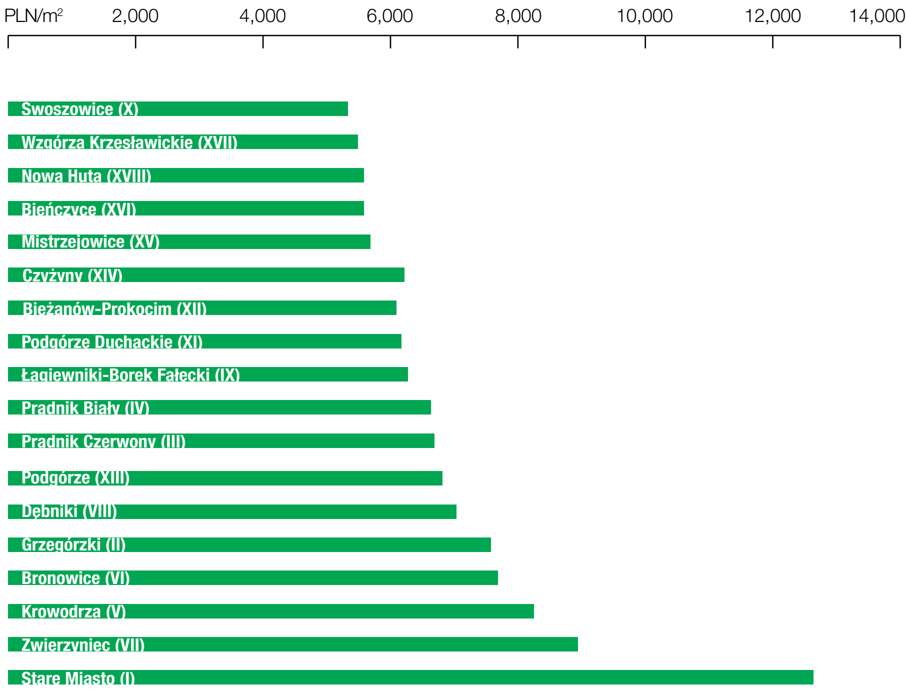


Chart 2.

Average asking prices of apartments on the secondary market in Krakow in 2015

Source: KRN.pl portal



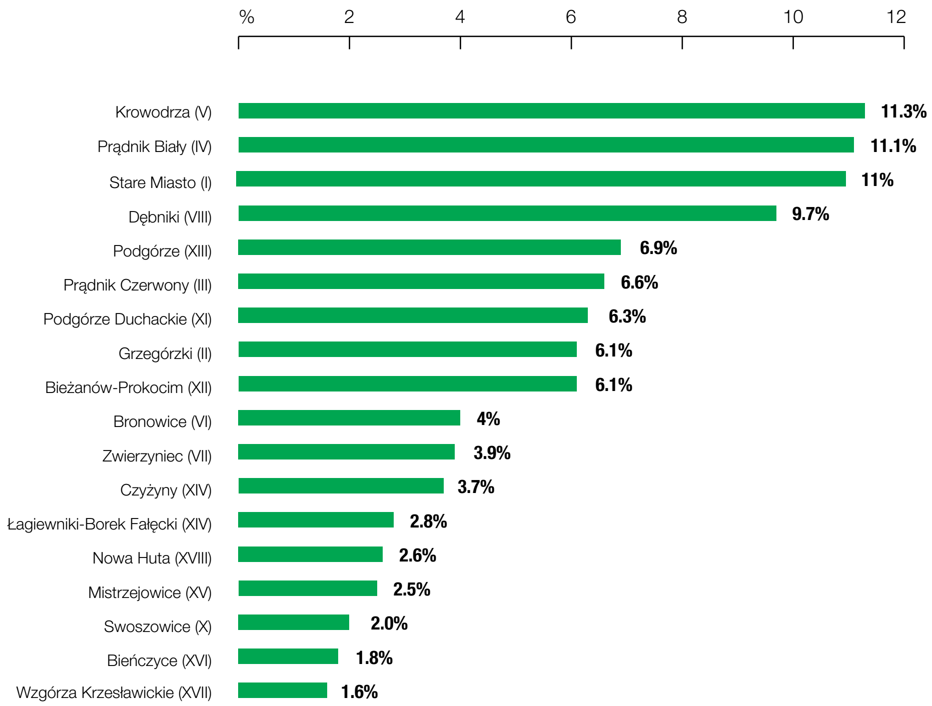


Chart 3.

Size of the housing supply on the secondary market in Krakow in 2015

Source: KRN.pl portal

Announcements regarding the sale of the secondary market continue to be dominated by 2-bedroom apartments. Their supply in 2015 accounted for 39% of the total property on offer in Krakow. Slightly fewer announcements – 33% – related to 3-bedroom apartments. The smallest choice, in turn, was recorded for those who decided to buy 1-bedroom flats or 4-bedroom or larger apartments in 2015. These offers were the least numerous in Krakow, respectively 15 and 13%. (Chart 4)

Krakow is the second city, after Warsaw, as regards the total of housing stock. This data is confirmed by the varied range of housing, both in the primary and secondary markets. The factors that permanently affect high interest in the real estate offered in the capital of the Małopolska Region include good career prospects associated with the developing of services for business. The purchase of an apartment in Krakow is also induced by a big recognition of the city and its consistently formed image as a tourist and cultural business card of our country. Property buyers, for the large part, perceive the capital of the Małopolska Region not only as a means of meeting their own housing needs, but also as investment potential.

Those buying apartments for rental, e.g. to students or tourists, mostly believe that it will be a better solution to buy a so-called second-hand apartment, as this type of property requires a smaller financial outlay for arrangement and finishing. It also needs to be remembered, however, that the specifics of the Krakow real estate market result in the fact that the prices of used apartments do not differ significantly from those offered in new investments.

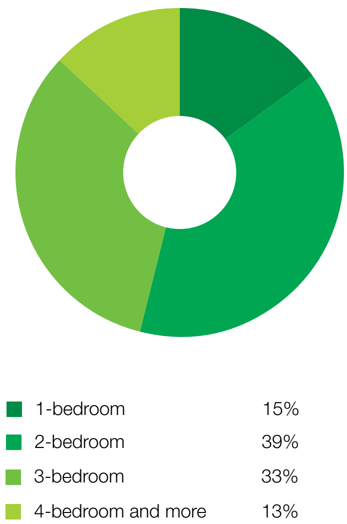


Chart 4.

Housing supply on the secondary market according to the number of bedrooms in 2015

Source: KRN.pl portal

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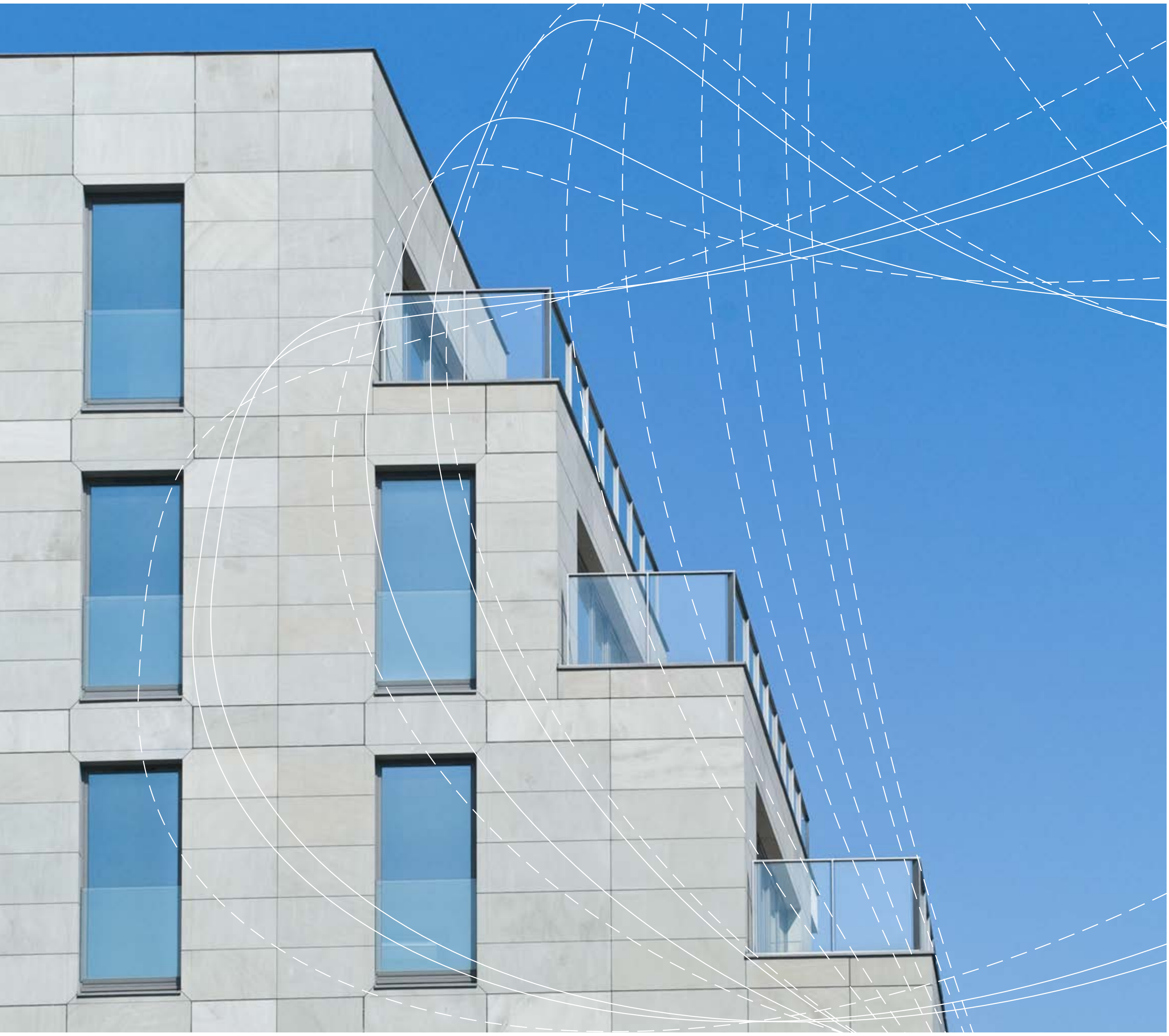
SECONDARY HOUSING MARKET - TRANSACTION PRICES

For years, the largest number of apartments on Krakow's secondary market have been sold in the largest cadastral unit – Podgórze. Nearly half of all apartments are built and they will eventually supply the secondary market, increasing the volume of transactions in this market segment. The smallest number of apartments is sold in the following areas: Sródmieście – due to high prices – and Nowa Huta, where the smallest number of apartments are built. (Chart 1)

The situation in 2015 was much better than in recent years. A record number of apartments were sold on the secondary market. The reason was the low interest rates, the MdM program (Apartments for Young People), also including second-hand apartments since the middle of 2015, and investment purchases (buy to rent), a more favourable alternative to bank deposits. To a large extent, this kind of purchase was responsible for a sharp increase in transactions in the most expensive areas of the city – the former Śródmieście and Krowodrza districts. Investors are not interested in the lowest prices, but rather good locations, where people will be willing to rent and for areas in which the return period will not result in problems with rapid sales.



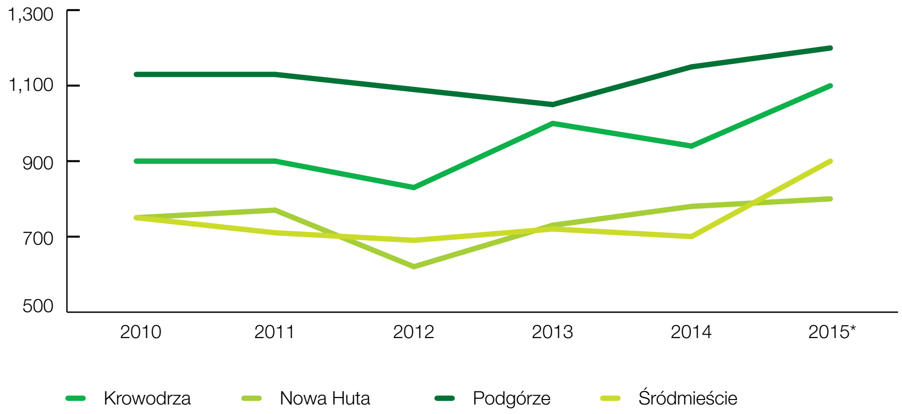


Chart 1.

Volume of transactions on the secondary housing market

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

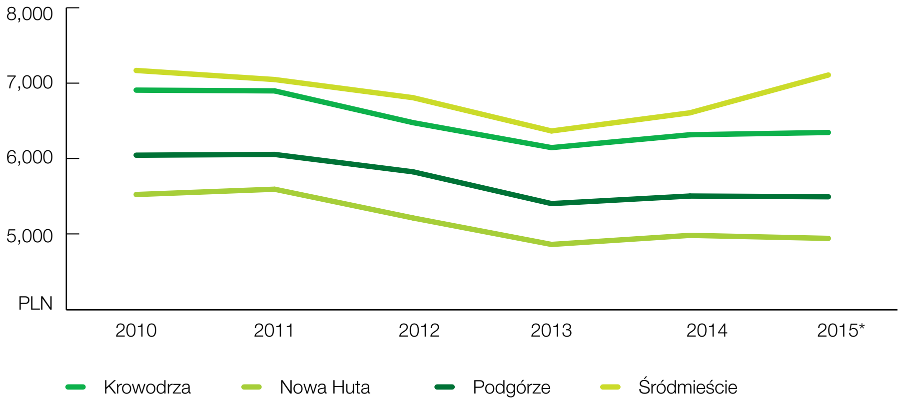


Chart 2.

Average price per 1 m^2 of an apartment on the secondary market

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

In 2015, the average asking prices for new and used apartments were similar, except that the primary market mainly included the outskirts of the city, and the turnover on the secondary market is generated mainly in areas adjacent to the city centre. Meaning that the same price can be paid for a used apartment near the centre and a new apartment on the outskirts. If we compare the same locations, adding approx. 10% to the purchase price of housing on the secondary market, buyers can enjoy a new apartment with similar size, but yet to be finished.

An assessment of the attractiveness of individual areas of Krakow can be seen in the average prices that are obtained for properties in the area of the four former districts. The greatest interest, and consequently - the highest prices are recorded in Śródmieście and Krowodrza. Lower prices can be achieved in Podgórze and, traditionally, Nowa Huta is the cheapest.

In 2014, there were significant increases in transaction prices. However, in 2015, these increases remained only in the area of Śródmieście. In other areas, the prices generally remained at the same level as in the previous year. 2015 was the fourth year in a row when the average price of property sold remained below the limit of PLN 300 thousand per property.

Average prices per 1 m^2 of all of the properties sold in the secondary market in 2015 increased by approx. 2%, as compared to the previous year, amounting to slightly less than PLN 6 thousand/m^2. Over the last two years, an upward trend has been visible only in the area of Śródmieście, where there has been a rise of over 6% in housing prices in relation to the level of 2014. However, in 2015 itself, the prices were stable and there was a small price movement within individual districts, reflecting the stabilization of the average price for the whole city around the level of PLN 6 thousand/m^2. (Chart 2)

In total, for the whole city, the average area purchased on the secondary market in 2015 was, as in previous years: 49 m^2. This demonstrates the high purchasing power of buyers, with continued low housing prices. (Chart 3)

On the secondary market, as in previous years, mainly small apartments were traded. Large ones are rarely traded. In 2015, transactions involving properties with an area of 65 m^2 accounted for 16% of all transactions and the sale of properties larger than 100 m^2 represented less than 3% of the total market. This situation has been going on for a long time and it will be difficult to change it, as currently mainly small properties are being constructed which will, in time, feed the secondary market, resulting in the continuation of the current trends.

An effect of the increase in the number of transactions on the secondary market in 2015 was an increase in turnover which rose to the highest level in 9 years. (Chart 4) Despite this, the primary market is still the beneficiary of the increased demand for apartments in Krakow, nearly 50% more apartments were sold there in 2015 than on the secondary market.

Summary

Once again there was a huge domestic demand for apartments in Krakow. Despite the fact that it mainly accumulated on the primary market, the secondary market recorded the highest turnover in 9 years. Small apartments predominated in the area of all districts, with wealthier customers being the preferred primary market. The Apartments for Young People (MdM) programme established in mid-2015 by the government for the subsidizing of used apartments resulted in lower prices in the cheaper areas of the city.

Slight increases in used housing prices in the city centre were reported – as compared to 2014. In other parts of the city, there were no significant price movements. In 2016, prices on the secondary market of apartments in Krakow should be stable. Barriers to the growth of prices are too strong to lead to a clear appreciation of the current price levels.

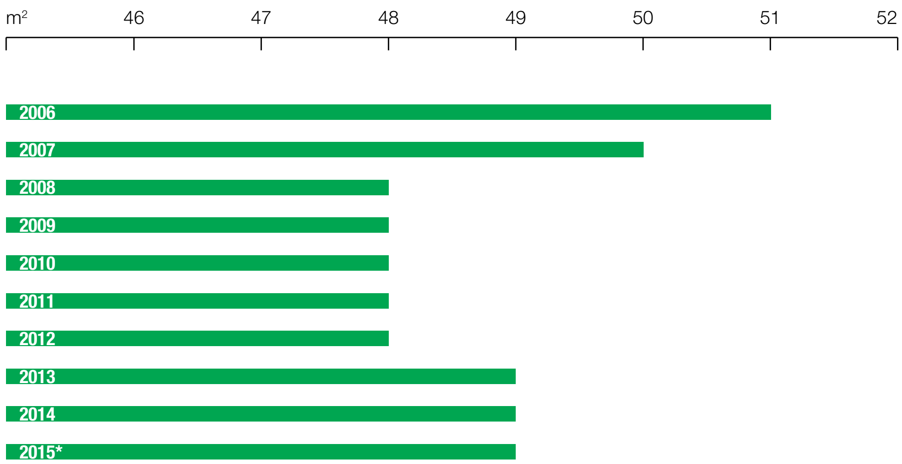


Chart 3.

Average size of a residential property on the secondary market in Krakow

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

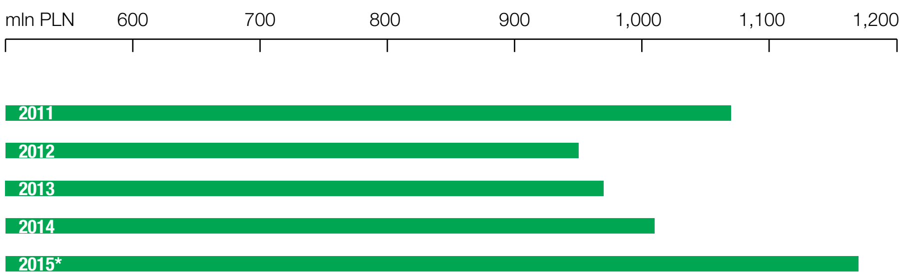


Chart 4.

Trading on the secondary housing market

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

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RENTAL OF APARTMENTS AND HOUSES

The rental market in Krakow is dependent on the calendar of the academic year – this is because students are the largest group of tenants in the city. Thanks to the fact that it is precisely this form of satisfying the housing needs among scholars that is becoming more and more popular, it is no surprise that the price of rented properties in Krakow are subject to seasonal variations. A decrease in rental rates can be seen during the summer when students of Krakow universities are on holiday. In 2015, slight increases were recorded in rental rates in comparison with 2014. The rental cost of the most popular, 2-bedroom properties in Krakow averaged approximately PLN 1,502. This amount is approx. 3% higher than that paid for the rental of such properties in 2014. Also slightly higher were the costs of renting a 3-bedroom property in 2015 – approx. PLN 1,708. (Chart 1)

When the cost of rental per m^2 of housing in Krakow is taken into account, it turns out that the differences in the rates for the rental of individual apartments are small. The cheapest option in 2015 was renting a 3-bedroom apartment. Tenants paid approx. PLN 33.30/m^2 for the rental of properties last year. It was slightly more expensive to rent 2-bedroom apartments: PLN 34.50/m^2 and 4-bedroom apartments: PLN 35.10/m^2. The most expensive, in terms of price per 1 m^2 in 2015, was renting a 1-bedroom apartment. Tenants paid on average PLN 36.6/m^2 for renting such an apartment. (Chart 2)

Due to the seasonality of the Krakow rental housing market, it would come as no surprise to say that the biggest decrease in the rates for renting was recorded in the third quarter of the past year. This was the holiday period during which students leave the city. For this reason, some landlords, in order to minimize losses, opt for charging cheaper rent during this period. The prospect of lower revenues for about three months a year is better for them than a situation in which apartments are empty and their fixed costs (administrative rent, utilities etc.) are charged to the owner. After the holiday season, when demand for rental properties in Krakow rises again, rental rates return to the same level as before the holidays, which is the best confirmation of seasonality.

Rental rates in Krakow are also affected by location – in districts which attracted the greatest interest from tenants, these rates are higher than in districts at a distance from the city centre. The highest level of rent was found when renting an apartment in Stare Miasto (I) and Zwierzyniec (VII). The most expensive areas also include such centrally located districts as Grzegórzki (II), Krowodrza (V) and Bronowice (VI). The Dębniki (VIII) district is also highly ranked. It is in fact one of the fastest growing districts of Krakow which has become popular among students – the campus of the Jagiellonian University is located in this district.

Apartments with the lowest rent in Krakow are to be found in Mistrzejowice (XV), Wzgórza Krzesławickie (XVII), Nowa Huta (XVIII) and Bieńczyce (XVI).

Supply of apartments for rent

It is worth noting that certain districts of Krakow are characterized by large disparities in the size of the supply of rental housing. In 2015, most of these types of property related to Śródmieście. As much as 16.2% of the total available apartments in Krakow were located in this part of the city. Tenants who sought housing in Bronowice (12.8%), Dębniki (11.1%) and Prądnik Biały (10.4%) also had a fairly large choice. The four districts accounted for half of all apartments on offer in 2015.

The smallest number of apartments available to rent was to be found in the districts of Wzgórza Krzesławickie (0.5%), Swoszowice (0.4%) and Bieńczyce (0.4%). (Chart 3)

2-bedroom apartments invariably represented the largest group of apartments for rent in Krakow. More than half of the apartments (51%) which were available for rent in 2015 fell into this category. The second location, with less than half as many, were 1-bedroom apartments (23%). The property available in 2015 included far fewer 3-bedroom apartments (21%). The greatest difficulties in finding suitable accommodation were experienced by people who were looking for 4-bedroom properties. Apartments in this group accounted for only 4% of the total on offer in Krakow. Due to the low number of advertisements, the analysis according to the number of bedrooms does not include larger apartments – such properties accounted for 1% of all advertisements.

Chart 1.

Rental cost of apartments in Krakow in 2015, according to the number of bedrooms

Source: KRN.pl portal

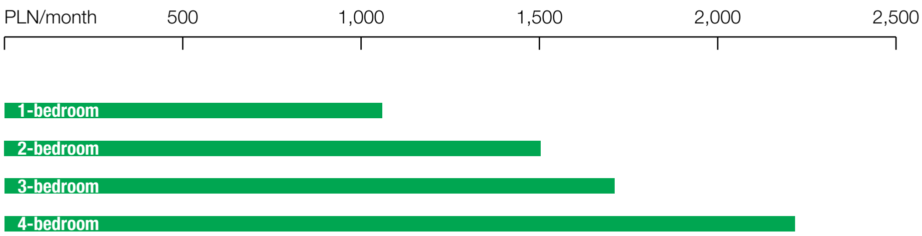
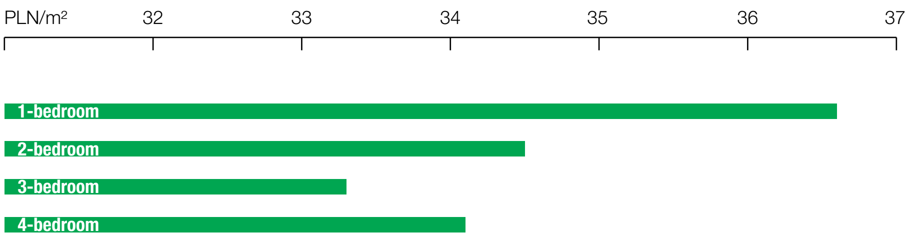


Chart 2.

Rental rates in 2015

Source: KRN.pl portal



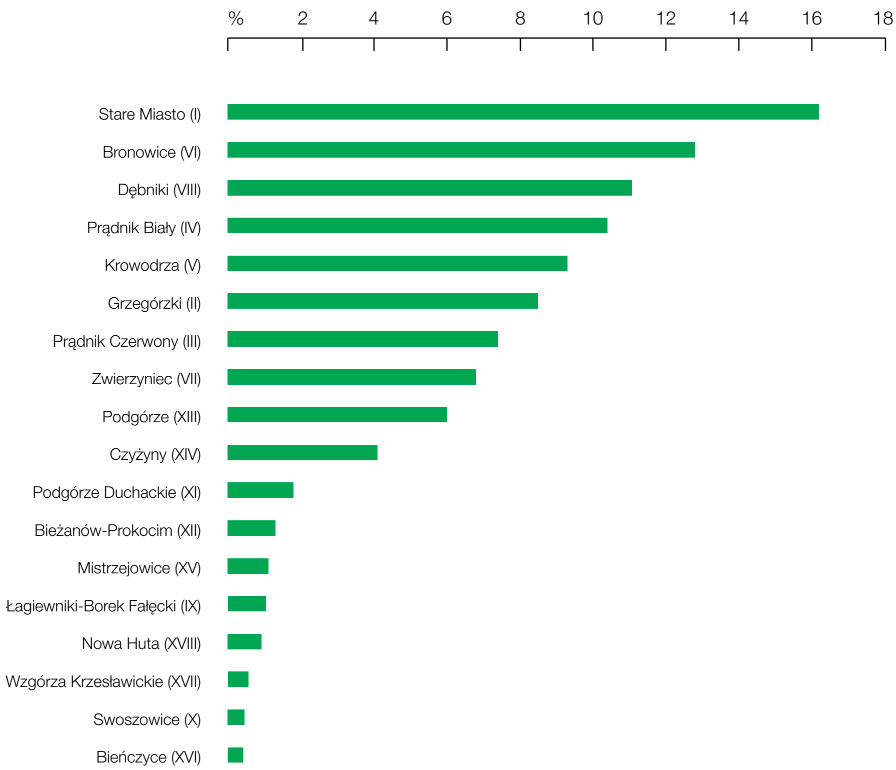


Chart 3.
Supply of apartments for rent in 2015

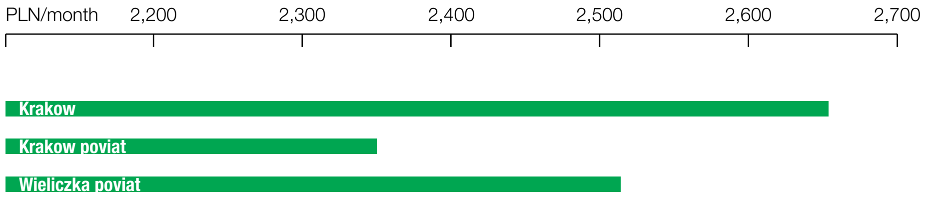
Source: KRN.pl portal

The number of houses for rent, both in Krakow and in the poviats of Krakow and Wieliczka, is small as compared with the number of apartments for rent in this area. The vast majority of houses offered for rent in 2015 were located outside the administrative capital of the Małopolska Region. An analysis of the rental prices for properties in this segment shows that they depend, to a large extent, on their location. It was a cheaper option to rent a property in the Krakow poviat – approx. PLN 2,350 was the average monthly rental price. It was slightly more expensive in 2015 to rent a house in the Wieliczka poviat – PLN 2,514 and PLN 2,654 was the cost of renting a house located in Krakow. It should also be noted that these prices were at a very similar level as compared to 2014. (Chart 4)

Chart 4.

Average cost of renting a house in 2015

Source: KRN.pl portal



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TOWNHOUSES AND HISTORICAL AREAS

Tenement houses have always been recognised as a separate market segment of real estate investment, with its own dynamics, supply and demand. The tenement houses market is most strongly correlated with the housing market (especially apartments) and the market of commercial and hotel and tourism properties, as these buildings are usually used for such purposes.

The city centre, where historical housing development is focused, is the area of Planty with the most expensive houses in the Main Square, along Floriańska, Grodzka and Szewska. Another attractive enclave is the Kazimierz district with such streets as Szeroka, Krakowska and Starowiślna and shopping streets being the continuation of the streets inside the first ring road, such streets as: Stradomska, Zwierzyniecka, Karmelicka, Długa and Lubicz. The prices of tenement houses located in the vicinity of the Wawel Castle are also rising, including those around the Na Groblach square. The prices around the Central Railway Station have also been rising rapidly for several years,. This area includes Pawia Street, currently the most expensive commercial street in the city. The attractiveness of the formerly neglected Wesoła street, from Lubicz to Beliny-Prażmowskiego and the Oficerskie housing estate, popular locations for law firms, has been increasing from year to year. In Krowodrza, Salwator is invariably the most expensive, around the Na Stawach square and Kościuszki street, The area around the Krakowki park and such streets as: Lea, Królewska, Mazowiecka and Wrocławska is also attractive. Stare Podgórze primarily includes such commercial streets as Kalwaryjska and Limanowskiego, but areas situated higher, on the Lasota Hill, are increasingly sought after for residential purposes (Lasota square, Krzemionki, Zamojskiego, Parkowa streets) as well as the beautifully situated Dębniki housing estate by the Vistula river.

Resource and supply

Krakow is the only large city in Poland in which a large part of the pre-war structure of the housing resource has survived intact, also in terms of ownership. Almost a third of the housing was built more than 60 years ago, which means 90,000 apartments in 10,000 tenement houses, of which 1,000 are in the register of historical buildings of the city of Krakow. Within Śródmieście, there are approx. 7,000 pre-war tenement houses preserved, 2,000 in Krowodrza and almost 1,000 within Podgórze. There are still a large percentage of houses with unsettled legal status (no physical partitioning of tenement houses and no distribution of shares). Another trend is the permanent division and secretion of separate real estate properties.

The supply of complete tenements is therefore limited and the emerging new properties for sale are usually the result of the further regulation of their legal status, including the right to the property. However, there are year-on-year declines in the stock of complete tenement houses for sale. In contrast, the supply of converted tenement houses for sale is still very high.

Among the dozens of tenement houses on offer, increasingly in recent years, can be found professionally prepared sales offers, along with the decisions on zoning or permits for their reconstruction and development. They enable potential buyers to precisely prepare a business plan regarding their investment, and hence – to more accurately estimate the risk factor of their investments. A characteristic feature of these offers and transactions is the price calculation based on the target (projected) usable floor space, as in the case of a sale of investment land.

These trends are a response to market expectations of a sales offer prepared for the investment, which provides a shorter period of investment and a faster return on capital.

Market turnover

Every year, transactions in tenement houses are recorded throughout all three of the pre-war Krakow districts: Śródmieście, Krowodrza and Podgórze. In 2015, as many as 50 contracts for the sale of entire tenement houses were concluded (50% annual increase y/y) and 161 transactions involving apartments in converted tenement houses (5% increase y/y). After a period of decline, the number of transactions which have taken place since the record level of 2006 to 2009, the period of 2010-2015 saw a growing number of contracts of sale. In the past year, the volume of transactions involving entire tenement houses rose, reflecting the ongoing very strong economic situation in the market. (Chart 1) In 2015, the market turnover totalled PLN 275 million, a record for the past 7 years. The 2/3 of the capital was spent by investors on the purchase of whole tenement houses. (Chart 3)

The increasing volume and turnover indicate the persistent high level of interest in investing in Krakow's historic properties, maintained by the bullish confidence in the market of apartments. The specificity of this market segment is the flexible, variable demand adapted to the situation, in contrast to the relatively limited supply of historic buildings. Just as in the housing market, in the commercial and hotel markets, there has been observed a good deal of investor optimism since mid-2013, as exemplified by the public auctions of municipal tenement houses, where the number of bidders regularly exceeded 20 persons or companies.

Chart 1.

Number of transactions on the tenement house market

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

The number of transactions involving entire tenement houses

The number of transactions involving apartments of converted tenement houses

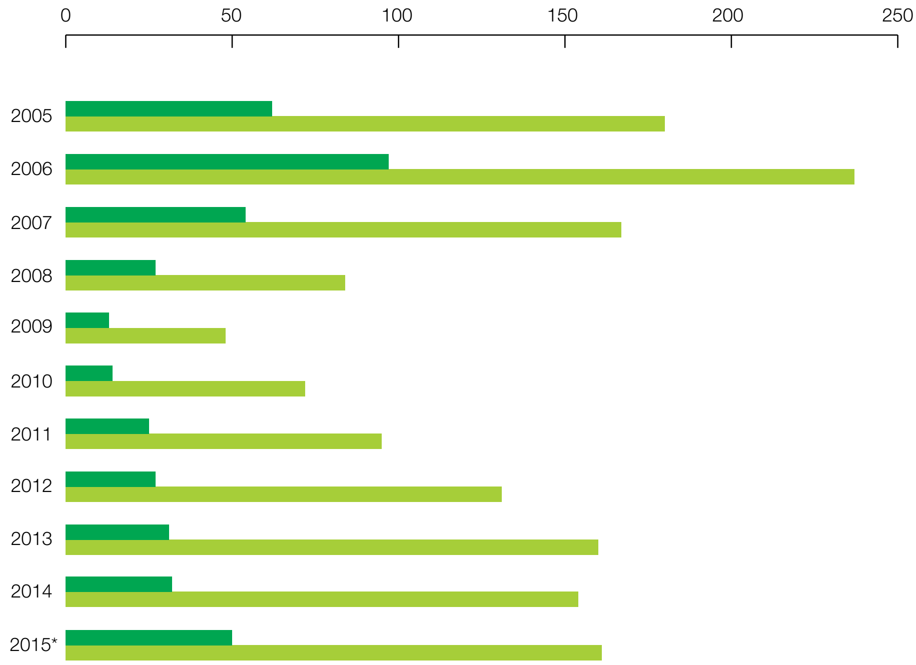
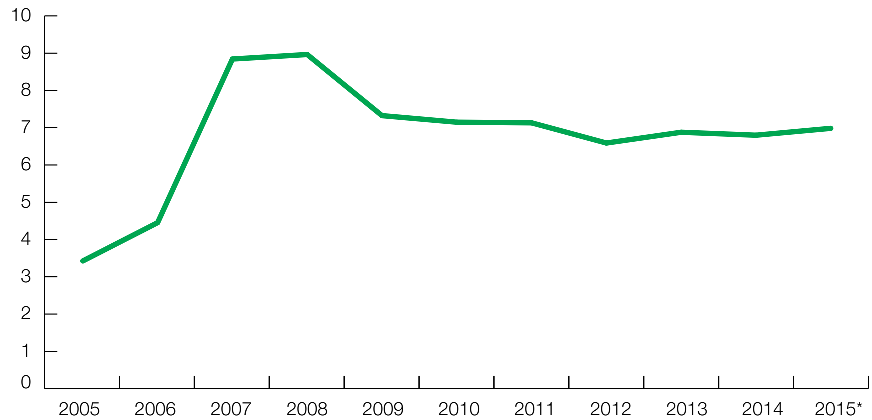


Chart 2.

Average price of 1 m² of usable space in Śródmieście (thousands PLN)

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data



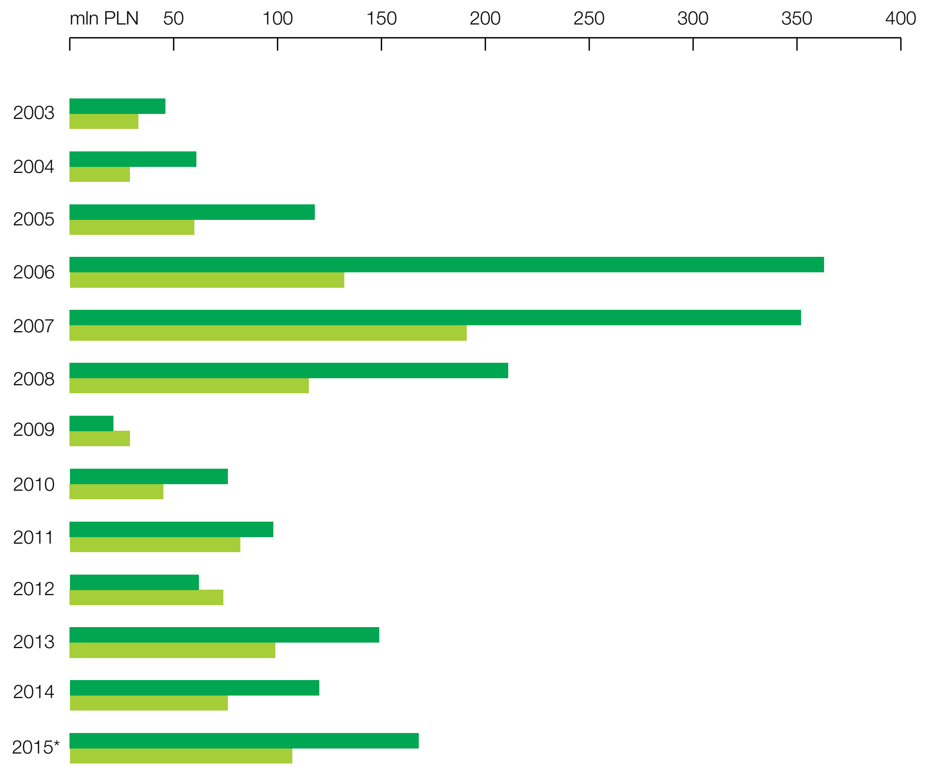


Chart 3.

Market turnover in tenement houses and parts of tenement houses

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

Market turnover on whole tenement houses

Market turnover on parts of converted tenement houses

Prices of tenement houses

The period 2003-2007 saw a rapid increase in the prices of houses due to the boom on the whole real estate market. In 2008, the adjustment started and prices were falling until 2012. The last three years: 2013-2015 marked the beginning of a slow upward rebound. The increasing turnover may mean that the market already reached its lowest price level in 2012 and reversed the trend from downward to upward. The current prices of tenement houses are still 20% lower (the nominal prices) and after inflation of almost 30% (the real prices) than the record level of 2007. (Chart 2) The highest price paid so far in 2015 for a tenement house was PLN 11.0 million (at Floriańska Street), against an average market price for such a property equal to PLN 3.6 million. For comparison, in 2013 the most expensive tenement house price reached PLN 15.5 million, and the average market price of the property amounted to PLN 4.4 million. In Krowodrza, the most expensive tenement house was sold for PLN 4.8 million and, in the Podgórze district – PLN 7.0 million.

An inherent feature of this market is the considerable variability in unit prices of tenement houses (from PLN 2.7 thousand to PLN 13 thousand/m^2 of usable floor space), which results from the large disparities in the attractiveness of the location (from Stare Podgórze to the Old Market Square), from the technical condition (from luxury tenement houses to vacant buildings requiring renovation) and from the rental income (from commercial premises for PLN 300-400/m^2 to apartments with tenants paying a fixed rent of PLN 6-14 PLN/m^2). And the expected rate of return is, for most investors, the basis for the calculation of the cost-effective purchase price of a tenement house. The market for tenement houses can be divided into several distinct parts with their own levels of pricing: the Krakow old town around the Main Market Square within Planty, the pre-war Śródmieście outside the Planty (Kazimierz, Stradom, Nowy Świat, Piasek, Kleparz, Wesoła and Grzegórzki), the pre-war Krowodrza with Salwator and, finally, Stare Podgórze with Dębniki.

Demand

During the market bull up to 2007, primarily foreign demand was increasing. For example, in Kazimierz, participation of foreign investors (mainly from the EU and Israel) in the market turnover increased from 13% in 2003 to 75% in 2008. Since 2009, interest in tenement houses on their part has been declining. For several years, the share of foreign capital has not exceeded 40%. The largest share in the structure of demand in 2015 belongs to investors from the residential and apartment sector, it is slightly lower than that of the hotel and tourism markets (shopping at hotels, hostels, guesthouses, catering). Demand from the hotel and tourism industry, however, is usually limited to whole houses, according to the nature of these services. The demand pressure of investors looking for tenement houses in outstanding locations, for offices and corporate headquarters, is not declining. The investment attractiveness of tenement houses is evidenced by numerous new developments of apartments in the city centre, the so-called seals (facilities built between the existing houses).

Forecast

Since mid-2013, investors, encouraged by low prices and ever cheaper loans, have been slowly returning to the market. Additionally, since early 2014, the tenement houses market has been affected by the healthy economic situation in the luxury apartments market. 2015 also saw a slow return of foreign investors and increased interest in the tourism industry. Therefore, the prognosis for the tenement houses market in Krakow in the short and medium term is optimistic. In the near future, new domestic and foreign capital will still be flowing in, attracted by the very good „brand" of Krakow as the tourist capital of Poland and an international centre of business and science, as well as the growing tourist traffic and rental market.

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SINGLE-FAMILY HOUSES IN KRAKOW

Primary market
Analysis of the primary market in comparison to previous years shows that the market is continuing to go through a decline in turnover in this segment. The high activity of developers in the housing market does not facilitate the development of projects in the single-family house sector. The market situation is getting worse from year to year. Houses, due to costs, are sold directly by developers.

Since 2012, there has been a marked decline in trading volumes and the number of transactions. In 2012, 90 transactions were recorded, which was a significant and surprising increase in relation to 2011, in which 69 transactions were recorded.

While in 2013, the number of transactions fell to 75 and in 2014 only 53 transactions were recorded. The estimated number of transactions in 2015 is 55, while maintaining a turnover of PLN 40 million. After the significant increase in turnover in 2012, we have had to deal with a deceleration of the downward trend with a possibility of a bounce back. (Chart 1)

There has been a strong differentiation of developer activity as regards the old districts of Krakow. Due to the different nature of the development in Śródmieście, there have been single transactions in recent years and 2014 showed a change in the situation in Nowa Huta. While there was 1 transaction in 2012, there were

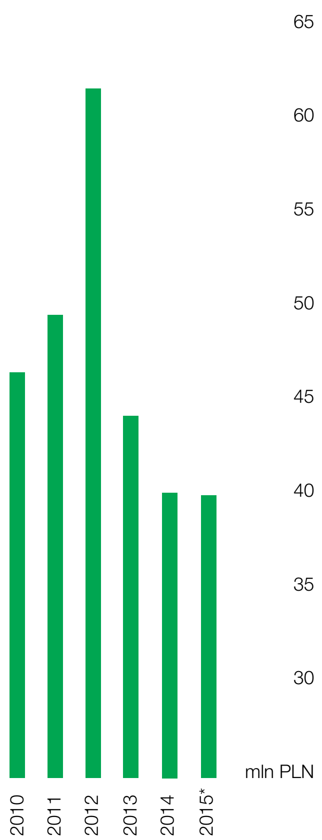


Chart 1.
Trading on the single-family housing market in Krakow
Source: Institute of Real Estate Market Monitor Analysis - mrn.pl
* estimated on the basis of incomplete data

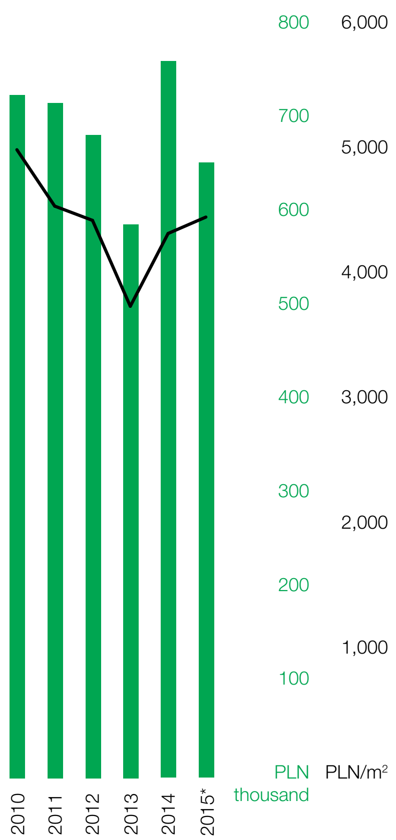


Chart 2.
Average transaction price and the average price per 1 m² of a single-family house in Krakow
Source: Institute of Real Estate Market Monitor Analysis - mrn.pl
* estimated on the basis of incomplete data

Average transaction price
Average price of 1 m² of utility floor space

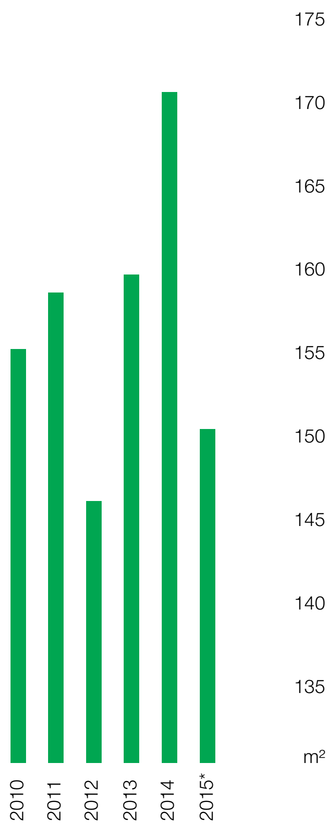


Chart 3.
The average size of a single-family house in Krakow
Source: Institute of Real Estate Market Monitor Analysis - mrn.pl
* estimated on the basis of incomplete data

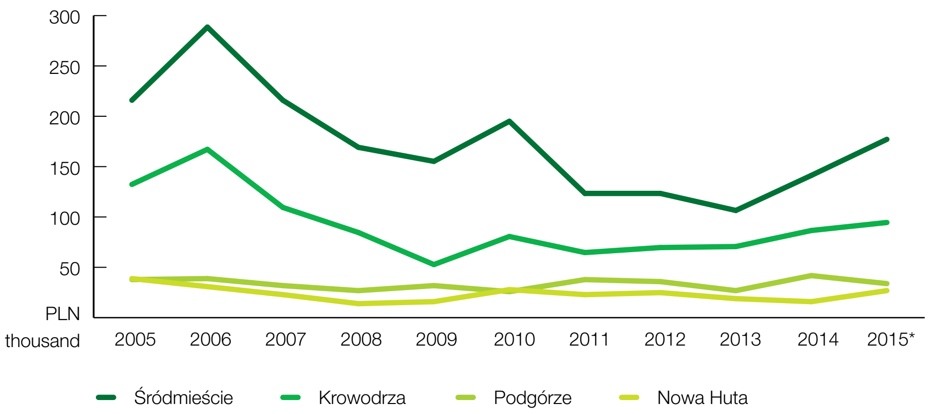


Chart 4.

Number of transactions in houses in Krakow

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

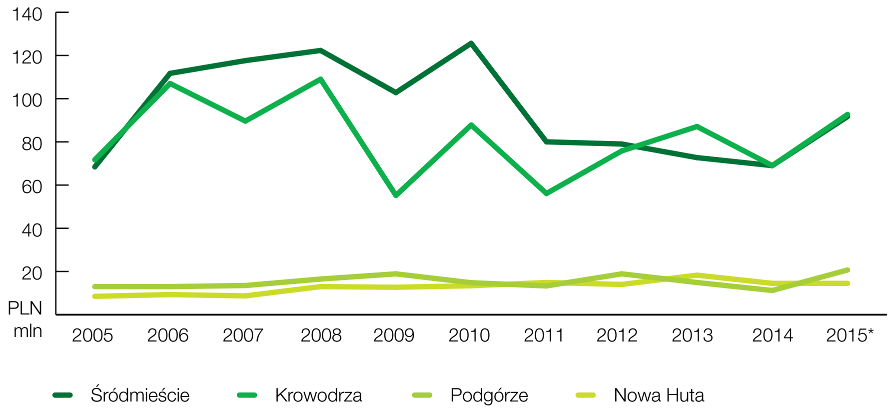


Chart 5.

Total turnover of houses in Krakow

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

7 in 2013 and in 2014 – there were nine. The greatest activity of developers is observed as usual, in Podgórze and sales there are greater than the combined total in other districts.

Average transaction prices fell by 14% in 2013, which could be due to the sales of houses in conditions less advanced than the developer. 2014 confirmed the observation with a significant increase in transaction prices: by 28%. It is expected that 2015 may bring a significant adjustment, because offers include more small buildings. The average price of 1 m^2 of usable floor space reached the minimum level in 2013 and it is making up for the losses, stabilizing at below PLN 4,500/m^2. (Chart 2) The ceiling unit prices range from PLN 9,000 to over PLN 10,000/m^2 for buildings in Wola Justowska. The minimum prices are recorded in Nowa Huta at a level of PLN 2,400/m^2.

The average area of a single-family house sold on the property development market in 2014 amounted to 170 m^2 and it is expected to decline in 2015. (Chart 3)

Secondary market

In 2015, more houses were sold in Krakow on the secondary market than in 2014. The greatest number of houses were still sold in Podgórze. In this district, last year, the volume of transactions accounted for over 50% of the total number of houses sold in Krakow. Krowodrza is at the second-ranked location in terms of the number of transactions. These two districts account for more than 80% of houses sold. Traditionally, not much is happening in Śródmieście and Nowa Huta, which is due to the specific nature of these districts. (Chart 4)

Turnover in both of the leading districts was close to the level of 2010. As compared to 2014, turnover increased by over 30%. 2014 was, however, an extremely weak year. As compared to 2013, the increase in turnover was just over 10%. Analysing the period 2011-2015, oscillations will be observed with a slight tendency to increase. (Chart 5)

Average prices for a house have increased also, approaching the figure of PLN 800,000. In this case, it is also close to the price level of 2010-2011. If the analysis took into account the period of 2013-2014, it could be stated that the average house price is fixed at PLN 780-790 thousand. (Chart 6)

The increase in the average price for a house in relation to 2013-2014 is not so clear as the increase in the number of sales transactions and an increase in turnover. It clearly demonstrates the price barrier on the demand. The market will not accept higher prices than 800 thousand, and PLN 1 million is a clear price barrier.

The market is dominated by sales of houses the prices of which are in the range of PLN 250-750 thousand. (Chart 7)

This price range covers more than 50% of all transactions. House sales for prices in excess of PLN 1 million accounted for just over 10% of total transactions.

Summary

The sector of primary market houses in the area of Krakow in 2015 experienced stagnation of turnover and the number of transactions. A decrease in the average size of houses is expected. Stagnation of a unit price indicates that the single-family houses market is parallel to the housing market, better times have come for both of them. Stiff competition can be observed in single-family housing outside Krakow. The falling average size of plots for single-family houses is a confirmation of the need for maintaining the asking prices as low as possible.

In contrast, 2015, in the secondary market of single-family houses in Krakow, showed a marked improvement, as compared to 2013-2014. The number of transactions, as well as turnover, increased. The average price for a house slightly increased. The visible bounce back on the secondary market may be due to the deepening stagnation in the primary market. Those who are looking for houses in Krakow, in light of the poor primary market offer, are directing their attention to the secondary market, where there are more and more relatively new houses available, i.e. constructed in 1995-2012.

Chart 6.

Average price for a house in the secondary market

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* estimated on the basis of incomplete data

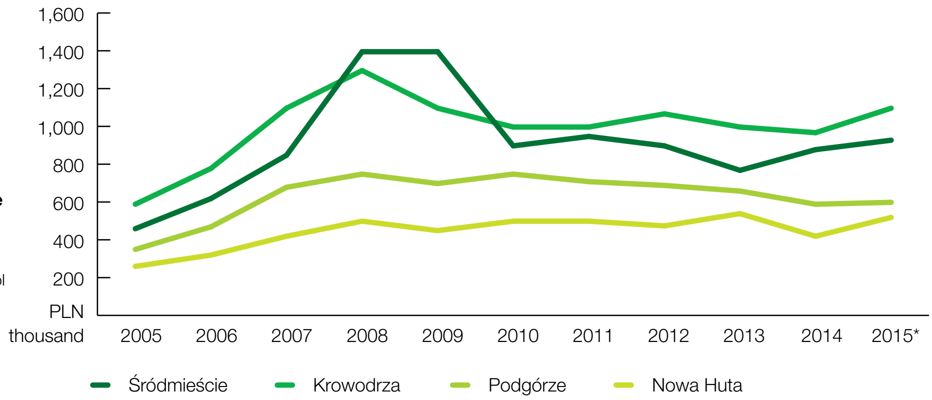
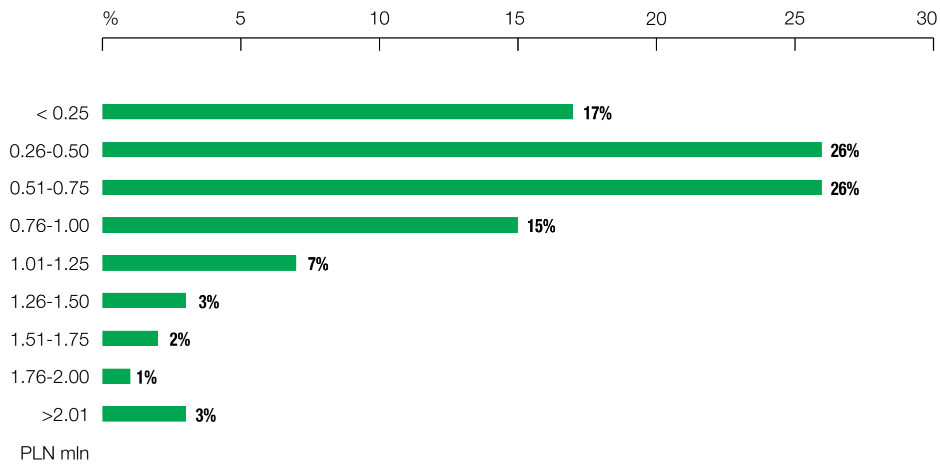


Chart 7.

Share of transactions in houses in price ranges in 2015

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl



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SINGLE-FAMILY HOUSES IN THE SUBURBAN AREAS OF KRAKOW

A set of data concerning real estate transactions built-up with single-family houses for 2014 proves the continuation of the upward trend that began in 2012. There is no data yet about all of the contracts for 2015 but it can be expected that the level of both turnover and number of transactions will be similar to that of 2014. Since 2013 there have been more than 600 contracts of sale, which confirms the healthy condition of this market sector. The increase in the volume of turnover over the past three years has also been a positive sign, which shows that prices of properties built-up with single-family houses are stable. (Chart 1)

The following charts include data from 2015, which is estimated due to the withholding of some data in the district units called starostwa.

The trend lines generated for a wide time interval in the district of Krakow indicate a stabilization during 2015, and continuation of this trend in 2016. In contrast, data covering transactions from the Wieliczka poviat indicates that the upward trend observed in 2013-2014 will not be maintained. The high level of interest in living in this region is shown by a significant number (approx. 350) of transactions in 2015, which corresponds to the most active market in the years 2010 and 2014, despite the fact that this figure is likely to be slightly lower than in 2014. (Chart 2)

Analysis of the trend line (both the number of transactions and the trading volume) for the Wieliczka poviat indicates a growing trend, which comes as the result of the rapid growth in 2013-2014, while stabilization should probably be expected in the coming year.

In 2015, the highest number of transactions in single-family houses was recorded in the municipalities of Zielonki, Zabierzów and Mogilany. When comparing the data for 2014, a significant increase in the number of transactions in the municipalities of Zielonki, Michałowice and Krzeszowice can be observed and a decrease in Zabierzów, Mogilany and Liszki.

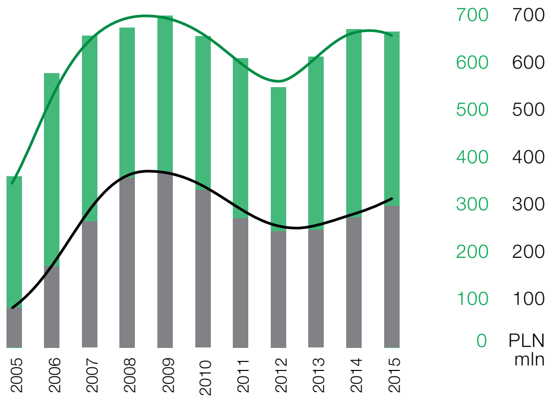


Chart 1.

Number of transactions and trading in houses in the Krakow poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

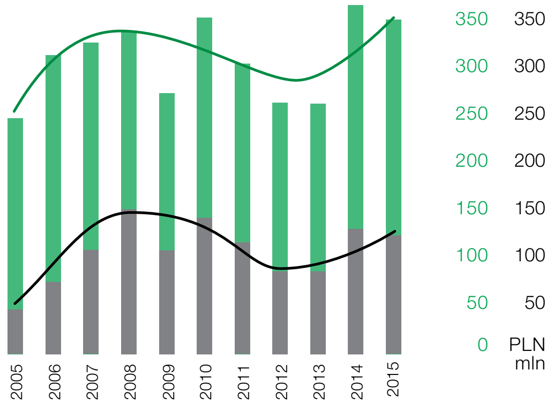


Chart 2.

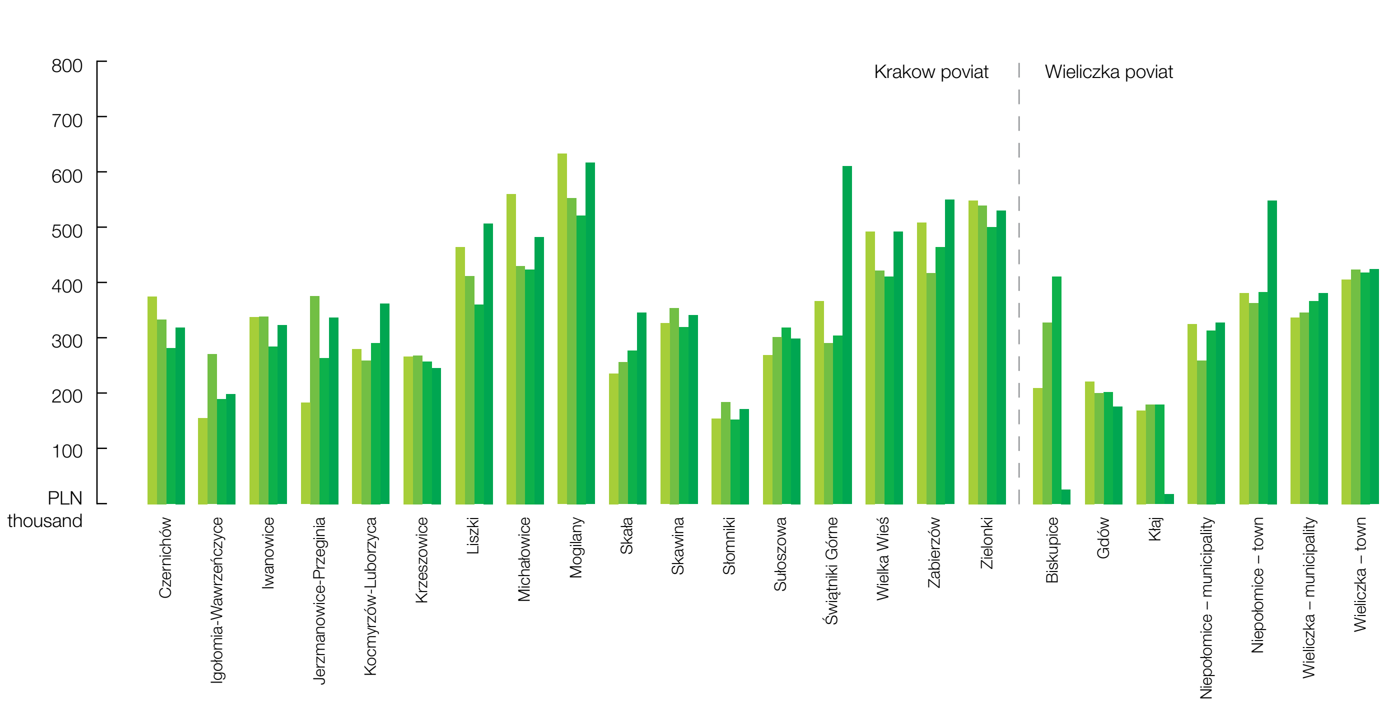
Number of transactions and trading in houses in the Wieliczka poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

Chart 3.

Average transaction price for a house in the municipalities of the Krakow poviat and the Wieliczka poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl



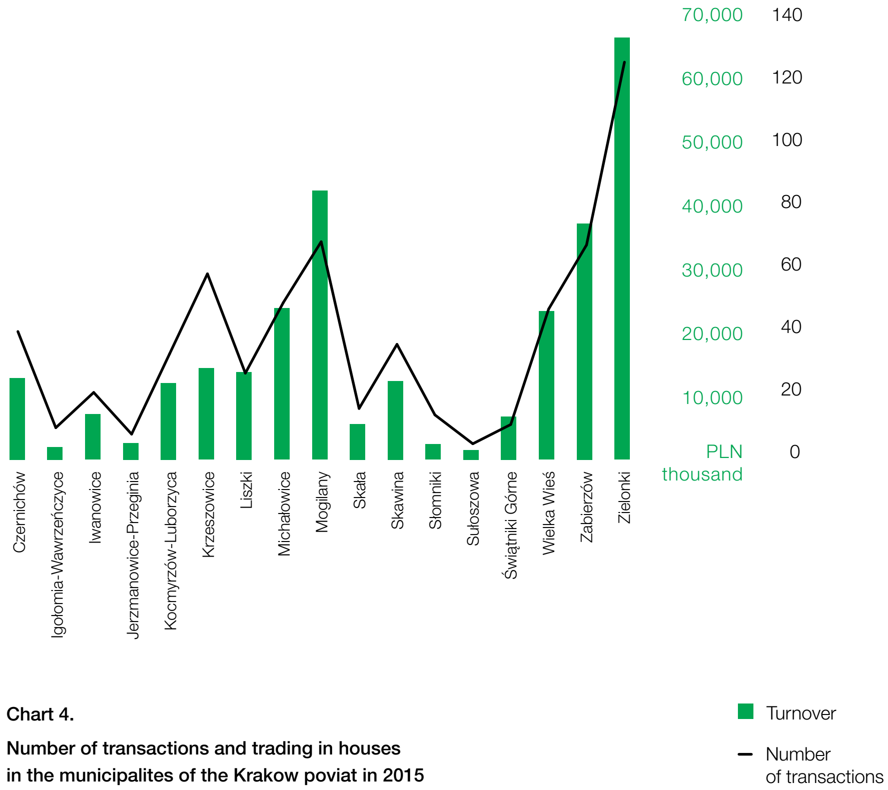


Chart 4.

Number of transactions and trading in houses in the municipalites of the Krakow poviat in 2015

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

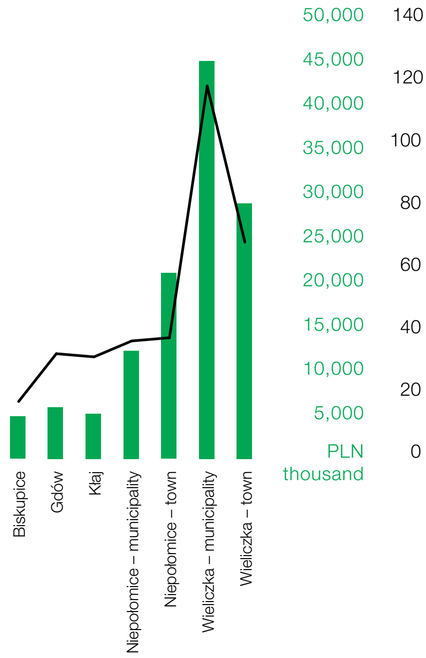


Chart 5.

Number of transactions and trading in houses in the municipalities of the Wieliczka poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

The maximum values in the chart of the trading volume correspond to the maximum values on the number of transactions. Attention should be paid to the higher volume of trading in the municipality of Mogilany rather than Zabierzów, with a similar number of transactions, which confirms the higher real estate prices in Mogilany. The highest trading price in 2015 was recorded in one of the villages in the Zielonki municipality – nearly PLN 4.7 million, was paid for a residence on a plot of nearly 1 acre. (Chart 4)

The Wieliczka poviat is dominated by transactions in the city and municipality of Wieliczka. The most expensive transaction was the purchase of a single-floor house on a 9-acre plot in Wieliczka – the transaction was valued at PLN 1.3 million. (Chart 5)

Historical analysis of average transaction prices for real estate in the Krakow poviat shows an upward trend (apart from the Czernichów municipality), which gives a very positive outlook. The municipalities of Kocmyrzów-Luborzyca, Michałowice, Skała, Zabierzów, Świątniki Górne and Zabierzów have shown an increase in the average amount spent on the purchase of a single-family house for the third year in a row. In 2015, the average transaction price reached a five-year high in the municipalities of Kocmyrzów-Luborzyca, Liszki, Skała, Świątniki Górne, Wielka Wieś and Zabierzów. In 2014-2015 the five-year minimum was recorded in the municipality of Krzeszowice. (Chart 3)

In the cities and municipalities of Wieliczka and Niepołomice, the average prices for a house have been increasing for the past three years, while a decrease has been observed in Biskupin and Gdów. A marked increase is observed in Niepołomice – this is the five-year maximum. (Chart 3)

Primary market

The number of transactions in which developers and individuals were the selling parties in 2015 was very close to the level of 2014. The activity of developers from 2012 has remained reasonably constant, which indicates a stable, developed market. While the increase in the number of transactions with individuals as the selling parties, as observed since 2011, slowed down in 2015, although this may change slightly after including all the data for geodetic resources. (Chart 6)

Analysis of prices per m^2 of usable floor space of a building in developer transactions shows – as in common with previous years, that in the case of municipalities with a large number of such transactions, a significant difference between the maximum and minimum was revealed, depending on the degree of progress in the building being sold. (Chart 8)

In the Wieliczka poviat, the number of transactions in real estate development decreased in 2015 (after a three-year period of growth). More optimistic is the information that results from data concerning transactions conducted by individuals, where an increase in the number of transactions has been recorded for the third year in a row. (Chart 7)

In the Wieliczka poviat, developers concentrated their activities primarily in the municipalities of Wieliczka and Niepołomice. Developer transactions were sporadic in the municipalities of Biskupice and Gdów.

Summary

In 2015, the number of transactions has stabilized, which represents positive signals from the real estate market. Unit prices should be analysed separately for each of the municipalities; in 2015, there was a general increase in the price of real estate built-up with single-family houses.

There is still a high level interest in cheaper properties located further from the border of Krakow.

The number of development transactions in the municipalities near Krakow remains at a high level for the fourth year in a row, with a slight upward trend, while in the Wieliczka poviat, the three-year upward trend was came to an end in 2015.

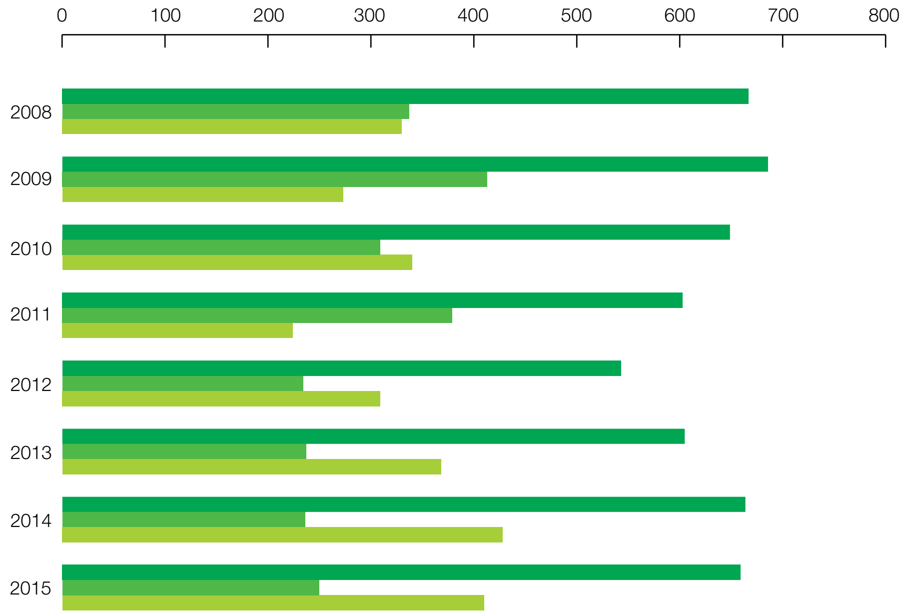


Chart 6.

Number of transactions conducted by developers and individuals in the Krakow poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

Number of transactions

Developers

Individuals

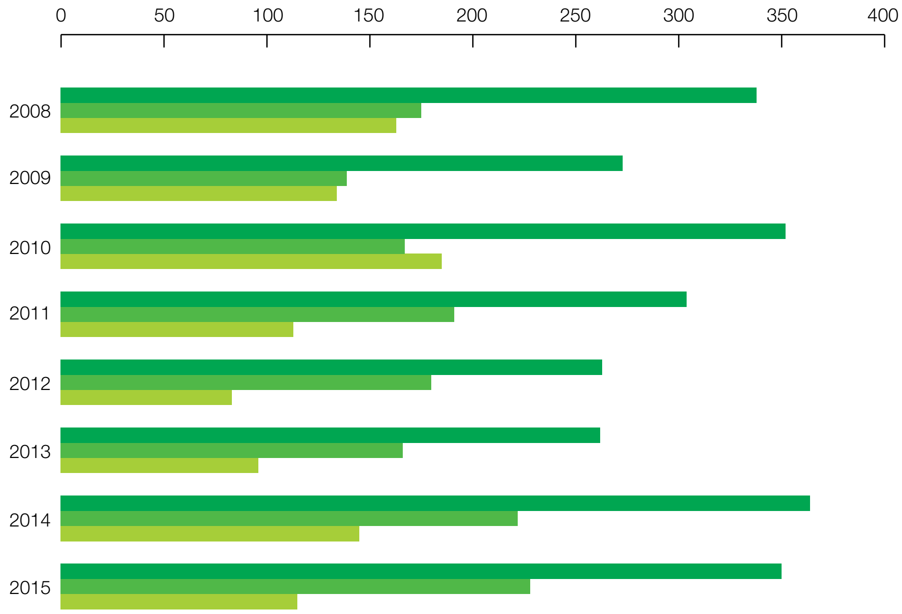


Chart 7.

Number of transactions conducted by developers and individuals in the Wieliczka poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

Number of transactions

Developers

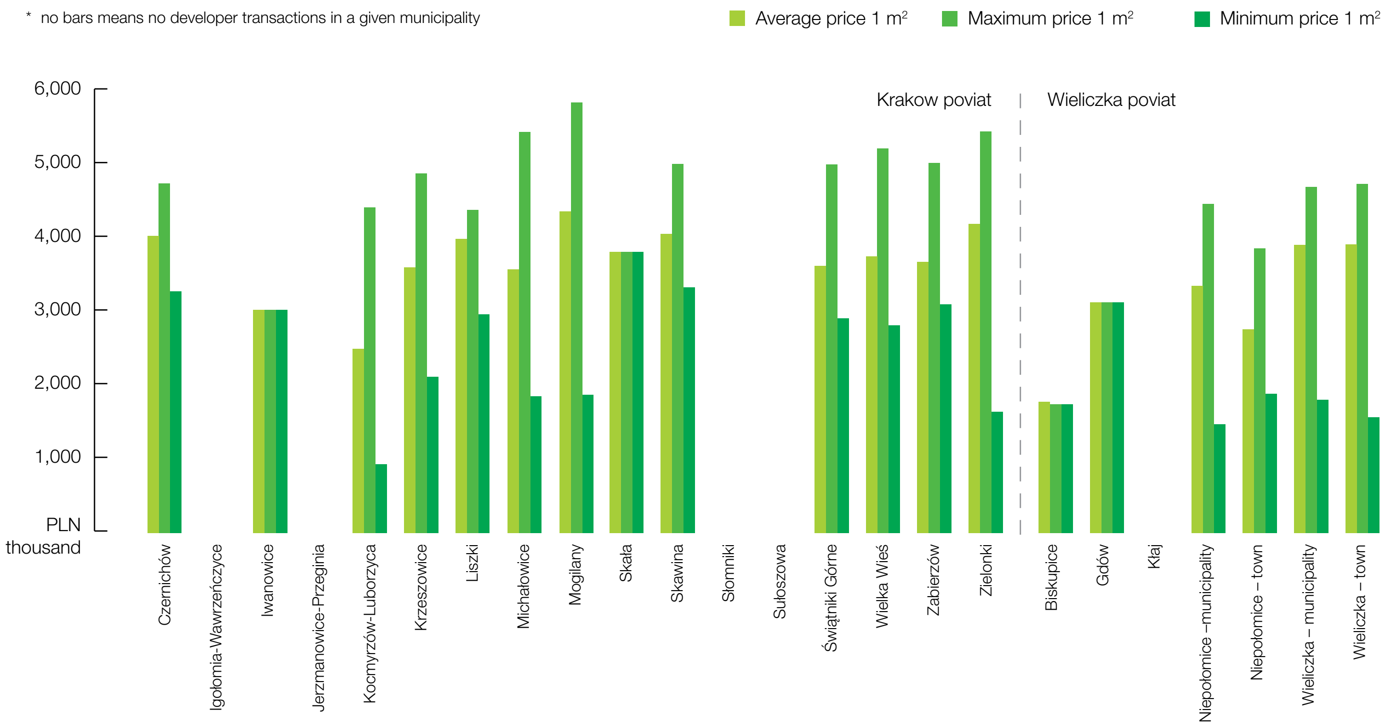
Individuals

Chart 8.

Minimum, average and maximum prices per 1 m² of a house in the municipalities of the Krakow poviat and the Wieliczka poviat in developer transactions* in 2015 (PLN/m²)

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

* no bars means no developer transactions in a given municipality



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LAND IN KRAKOW

In 2015, the positive trends of 2014 continued in the land market in Krakow. These trends are concerned mainly with market activity. The trading value and the number of transactions increased, with relative price stability. Capital activity focused mainly on land investment for multi-family housing.

At the end of 2012 and in the first half of 2013, prices reached the lowest levels. 2014 was characterized by rising prices and marketing. 2015 brought a relative price stability, with an increase in turnover. We still have to deal with shifting part of the bank deposit capital to the land and housing market. The positive development of the labour market in Krakow in the sectors of IT, engineering and BPO in which wages are above the national average, combined with low interest rates, means that there is still a number of potential buyers and renters of apartments. Sales of apartments encourage developers to refill land resources. The labour market also drives the prosperity in the office segment which recorded the lowest levels of vacancies in buildings in Poland. The positive trends in Krakow caused the further emergence of new developers operating in other cities, thereby increasing turnover. In Krakow, the market for plots recorded an increase in the number of transactions, along with an increase in turnover, as compared with 2014. Preliminary data indicates a turnover of about PLN 1 billion, with about 1,050 transactions.

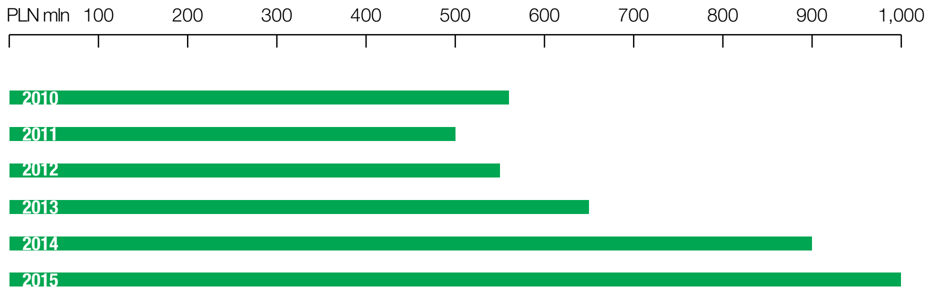


Chart 1.

Trading on the land market in Krakow*

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* Figures do not include land purchased by the Municipality and the Treasury in connection with road infrastructure projects and contributions made between various entities. Preliminary estimates for 2015

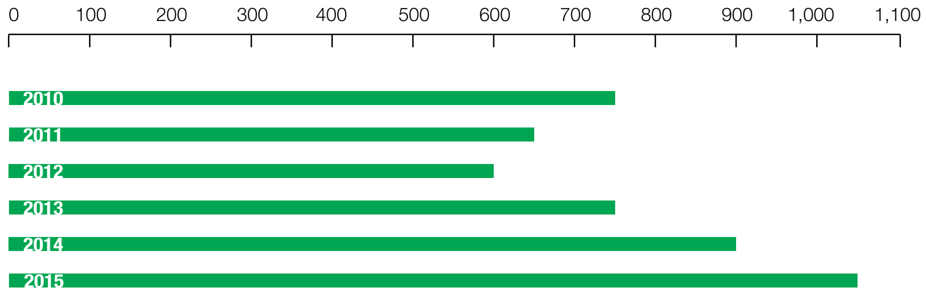


Chart 2.

Number of transactions on the land market in Krakow*

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl

* Figures do not include non-market transactions, land purchased by the Municipality and the Treasury in connection with road infrastructure projects and contributions made between various entities. Preliminary estimates for 2015

However, it is important to remember that this is preliminary data and following the experience of 2014, it should be assumed that part of the transactions concluded in the last quarter has not yet been disclosed.

In the weak 2009, about 500 transactions took place, with a very low turnover of PLN 270 million. In 2011, there were approx. 650 transactions, with a turnover of PLN 500 million. The revised data for 2012 showed about 550 transactions, with a turnover of about PLN 550 million. The data for 2013 indicates approx. 750 transactions, with a turnover of about PLN 650 million. The revised figures for 2014 indicate 900 transactions, with a turnover of about PLN 900 million. Preliminary data for 2015 shows 1 050 transactions and a turnover of PLN 1 billion which, as compared to 2014, represents an increase in the number of transactions of about 17% and, in the case of the turnover, of about 10%, the data can still be subject to revision. (Chart 1, Chart 2)

Statistics point to a stabilization of the transaction unit value, despite the arrival of new funds, shifted from bank deposits, in the land property market. In this cycle, on the land market, there were none of the negative trends that were observed in 2007 and 2008 when prices increased several dozen percent per year, and developers enlarged their land resources overpaying for land. In 2015, the average transaction price of construction land in Krakow amounted to approximately PLN 600/m^2, and it was at a similar level to that of 2014. The price significantly increased in comparison with 2013, which averaged at about PLN 480/m^2. Invariably, the largest quantitative share in land trade, as in previous years, consisted of plots for single-family housing. Their share of construction land transactions, just as in 2014, was approximately 50%.

Taking into account the value of transactions in the real estate market, the land for residential, multi-family and residential service purposes invariably dominated and their share in the land trade was about 50%. Sales in the segment of plots for single-family houses increased to almost 20%. The turnover in the service plot segment remained at about 30%, the same as in 2014.

The market of land for multi-family housing and residential and service construction in terms of the number and value of trading was at different levels in individual districts. Investors focused on Podgórze where approx. 40% of the turnover took place, while it was approximately 25% in Krowodrza and Śródmieście. Podgórze has become the leader as regards turnover in this segment, with an increase in the average transaction price of PLN 950/m^2 (after data adjustment for 2014) up to about PLN 1,200/m^2. In Krowodrza, the average transaction price also increased in 2015 from PLN 1,000/m^2 (after data adjustment for 2014) to about PLN 1,100/m^2. Only in Śródmieście, has the average price dropped to approx. PLN 2,000/m^2 from PLN 2,950/m^2. The decrease in prices is due to the decrease in the number and value of transactions in „sealed" plots. Average transaction prices in Nowa Huta remain unchanged.

The record sales achieved by housing developers in 2014 made them refill their land resources. New entrants arrived on the market, attracted by the results of the sale of apartments and a vision of solid gains in real estate development. National giants started to look at the market, up to now absent in Krakow.

The most interesting sales transactions in land for multi-family housing in Śródmieście concerned the plots at Fabryczna Street (Grzegórzki) with an area of over 3.6 hectares, with over PLN 33 million (PLN 918/m^2); Rakowicka Street, two plots of approximately 0.5 ha for approx. PLN 13 million (PLN 2,300-2,400/m^2).

In Podgórze, one of the interesting transactions was the sale of land with an area of over 6 hectares in the area of Mieczykowa street (Kliny) for less than PLN 30 million (PLN 475/m²) and a small plot of land with an area of 13 acres at Konopnickiej/ Barska streets (near the Congress Centre) for PLN 9.6 million (PLN 7,600/m²), for an office building to be constructed as well. In Krowodrza, two plots of approximately 0.8 ha at Wrocławska street (former WSK site) were bought for about PLN 16 million (PLN 1,600-1,800/m²). (Chart 3)

The market of plots earmarked for residential single-family constructions was stable, as compared to 2014. A slight increase was noted in the area of Nowa Huta. An interesting transaction was recorded in Chełm. An authorised liquidator sold a plot of land not covered by a zoning plan (in the MN development) with an area of over 22 ha at Podłużna, Pylna, Becka streets for PLN 22 million (PLN 97/m²). Earlier, at the peak of the bullish market for land in February 2008, the above site was bought for... almost PLN 126 million.

The market for service plots (commercial) continued at the high level started in 2014. Some very interesting transactions have been reported in large areas on the outskirts of the city, at major traffic hubs (Olszanica-Balice airport; Rybitwy node), through which the average transaction price of plots for services dropped in 2015 to about PLN 1,000/m² from PLN 1,200/m² in 2014. Commercial land prices for commercial usage ranged from PLN 300 to 2,000/m², and commercial plots for office development ranged from PLN 500 to 3,700/m². In 2015, the market continued the favourable trends in the sector of land for office development.

The most interesting transactions in commercial plots were related to the purchase of land for office buildings – an area of about 1.9 ha in Powstańców Wielkopolskich at Zabłocie, for a price of PLN 16.4 million (PLN 847/m²); plots at Mogilska, with an area of about 33 acres, for PLN 12.2 million (3,724 PLN/m²) and plots at 29 Listopada, with an area of 65 acres, for the price of PLN 13.35 million (PLN 2,038/m²).

In 2015, the increased activity of investors, continued from 2014, was recorded in the two peripheral areas of Krakow – at the Rybitwy node and Botewa, Śliwiaka streets, where prices ranged from PLN 300 to 400/m² with a history of over PLN 600/m² and Olszanica-Balice between the airport and the A4 motorway, where another 9 hectares were bought for investment. Plots in that area, strongly undervalued for years, following investments in the infrastructure around the airport, are beginning to be perceived by the market, which should result in an increase in prices, as well as at Rybitwy, following the confirmation of the route of the S7 expressway.

In the market of industrial plots, which can generally be found in Podgórze and Nowa Huta, stagnation was recorded, with a small number of transactions. The price level in the main industrial areas of these districts was at a level slightly higher than in 2014, i.e. in Podgórze, between PLN 150 and 400 PLN/m², and in Nowa Huta – in the range between PLN 60 and 400/m².

Summary

In general, the land market in Krakow in 2015 continued the recovery which started in mid-2013, which is confirmed by the increase in the volume of transactions and turnover. A relative stabilization could be seen in terms of market prices. The market was most active in the segment of plots for residential and service purposes and multi-family housing. Developers bought cheaper land located on the outskirts of Krakow, new developers appeared on the market and those already present filled their land resources intensely.

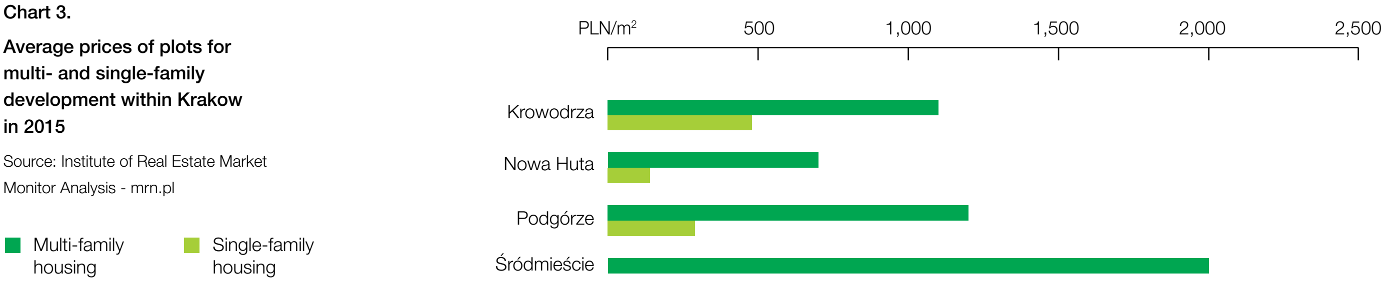
The segment of commercial plots maintained the positive trend of 2014. Continued interest in plots for office development could be observed, with a simultaneous awareness of the limited possibilities of absorbing further office space. The search for new undervalued service areas which should gain in value in the short-term was noticeable, (areas around the airport in Balice-Olszanica, and areas around the Rybitwy node).

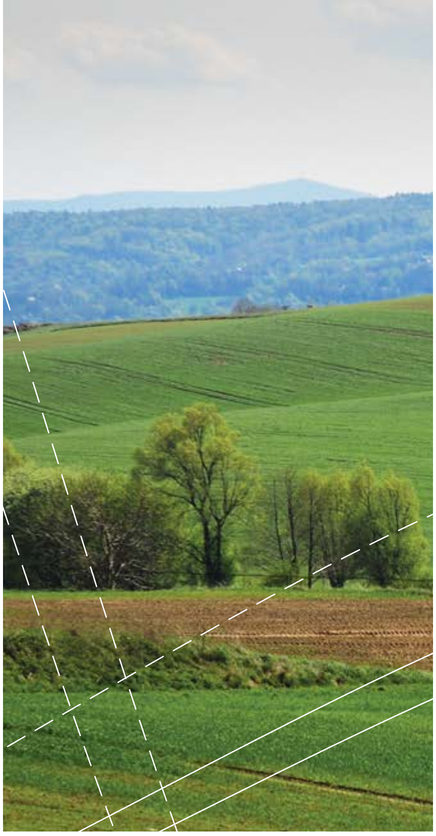
The segment of plots for single-family houses showed price stability.

Chart 3.

Average prices of plots for multi- and single-family development within Krakow in 2015

Source: Institute of Real Estate Market Monitor Analysis - mrn.pl





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LAND IN THE SUBURBAN ZONE

2016 began with new transactions in the first trimester, both in the real estate sector of investment provided for housing or service and in the sector of agricultural land, understood also as grasslands, forests, orchards and other sites with a high level of biological activity. Summing up 2015, it is impossible not to notice that it has raised the bar very high for its successor in many respects. During the year, the land market in the suburban area reported a stronger recovery and better variety than in the past four years.

In 2015, a record number of transactions was conducted against the backdrop of the previous five years, i.e. up to about 1,800 transactions in land ownership in the Krakow poviat. The total accounted for almost 1,000 ha of land sold for many different purposes. Such a large quantity of transactions has not been recorded up to 2011, which saw nearly 1,550 sales contracts for a total amount (volume) of PLN 290 million. Following that, the quantity and volume alone were worse. The slow exit from the economic crisis was not an incentive for investors. Less land was bought and sold for less money. A breakthrough in quantity took place in 2014, but it was a breakthrough that none of the sellers wanted: i.e. more was sold but the total gain was lower, which can be seen in the appallingly low volume for the year. The following year – 2015 – was separated by a chasm from the previous ones. A clear market recovery, as seen in the number of transactions, however, did not significantly affect the level of prices. (Chart 1)

The fall in prices by PLN 0.71/m^2 is indeed at the same level, i.e. nominal. Taking into account only the value of the January deflation of 0.95% (year on year) in real terms, prices of land in the Krakow poviat have been stable over the last year. Despite the earlier variation: a maximum of about PLN 4/m^2 (year on year) does not permit the inference that prices of land underwent something negative. (Chart 2)

Stable prices during the last five years are evident in almost all the municipalities of the Krakow district. This general stabilization – without splitting the functions of the land – does not mean stability, it only means that there were no local shocks in the number of transactions achieved per unit volume of the average transaction price.

Chart 1.

Number of land transactions and trading volume in the Krakow poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

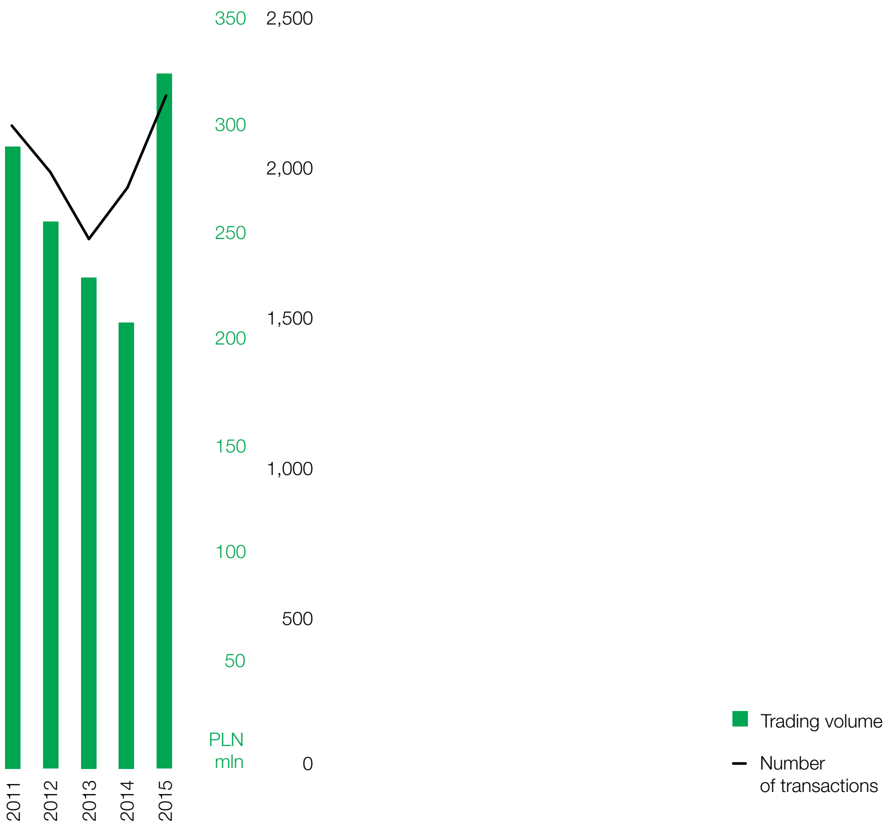


Chart 2.

Average price of undeveloped land in the Krakow poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

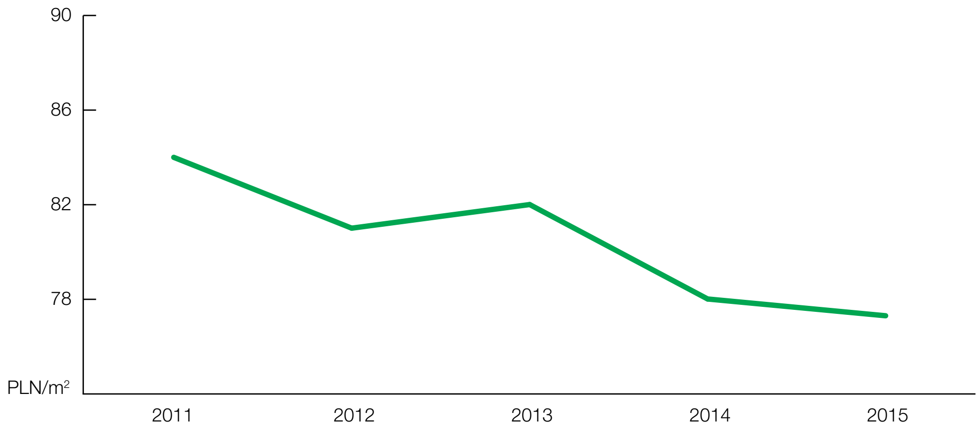
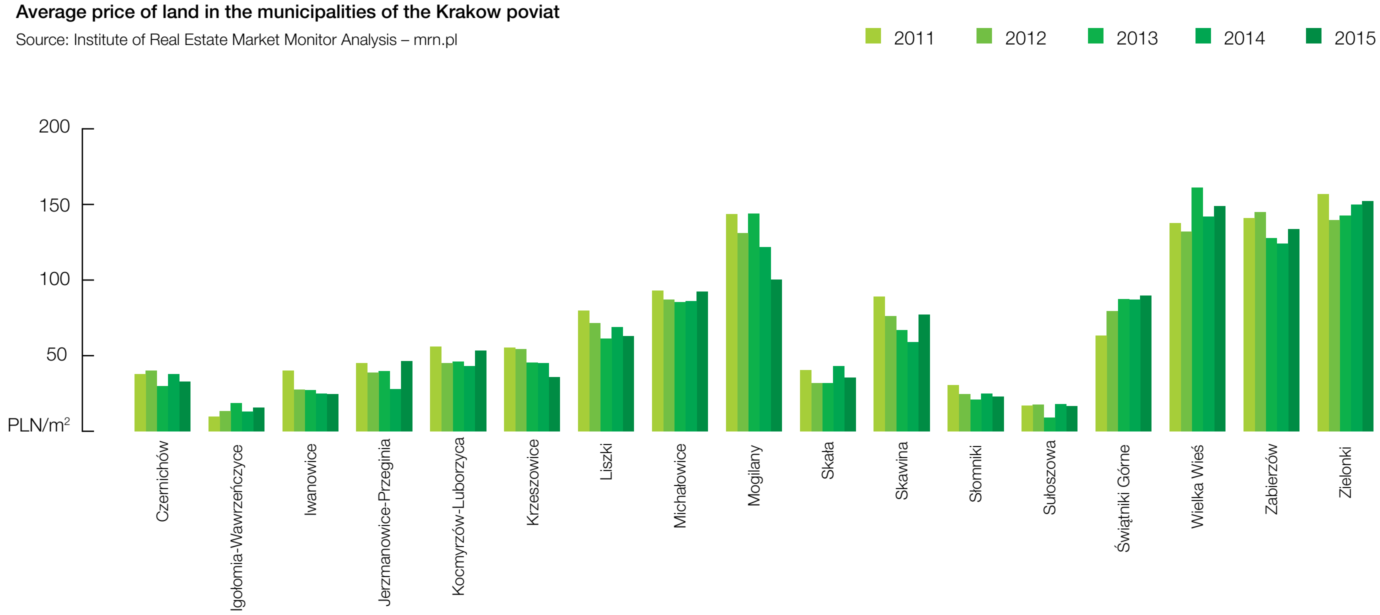


Chart 3.

Average price of land in the municipalities of the Krakow poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl



The municipality of Skawina deserves recognition, however. Owners of local land annually concluded sales contracts totalling increasingly low amounts. It was a cadastral unit which went through a phase of very intense property purchases and a period of leaving it. It was only in 2015 that investors took up the fight for Skawina land. It resulted in rising prices and maintaining and even improving the previous year's local quantity.

Invariably, the most expensive plots of land can be found in the municipalities of Zielonka, Wielka Wieś, Zabierzów and Mogilany. At the other extreme, there is the land allocated to the villages in the municipalities of Sułoszowa, Igołomia-Wawrzeńczyce and Słomniki, Iwanowice, Skała and Czernichów are only slightly better. To illustrate the difference between these extremes, it can be said that agricultural property in Zabierzów, Zielonki and Mogilany is more expensive than land for housing development (globally capital intensive) in Sułoszowa. (Chart 3)

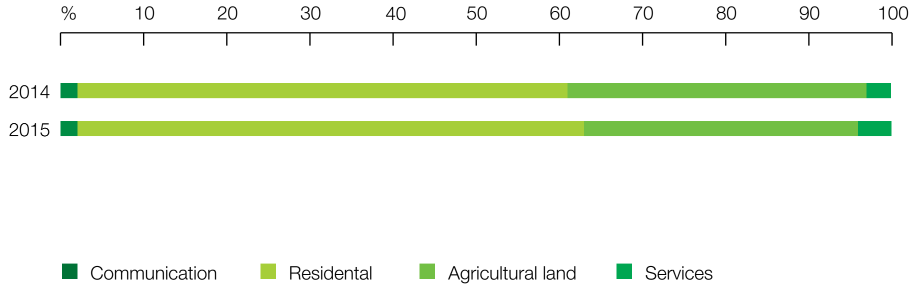
In 2015, more agricultural land was bought than in previous years. Its share was always greater than half of all transactions, but it broke the barrier of 60% at the expense of investment land in the previous year. (Chart 4)

Attention is also drawn to the positive changes in the area of the acquisition of commercial land with the exception of mixed destination (e.g. residential and commercial). Contracts for the purchase of land services, service and commercial, industrial or other similar are the most lucrative and bring their owners profit from several hundred to up to more than PLN 1,000/m^2. As an example, Jeronimo Martins Poland sp. z o.o. purchased 6,018 m^2 of service and commercial land located in Modlnica (Wielka Wieś municipality) for a total amount of PLN 4.92 million net, PLN 1,005.58/m^2. However, this destination, just as communication and other similar plots (e.g. for widening roadways) together constitute only 6% of all transactions. The collection of market observations is too little and too distracted to consider it at an adequate level of details. Accordingly, further analysis is devoid of service and communication purposes and will consider residential and agricultural functions.

Both functions changed slightly in terms of unit prices quoted three years ago. It could even be boldly claimed that the minor changes were a result of inflation. Slightly different was the value of land in 2011 and 2012, when the economic crisis put into question the sense of further investments. Many investors – especially inexperienced ones – decided, however, that it was worth buying, especially real estate for single-family houses. They bought a lot which influenced the price of land, further influenced by the banks with their unstable internal politics and operating regulations for interest rates. Further banking regulations, tighter credit conditions and a greater selectivity of borrowers resulted in that less and less, but still not enough, was built. This decrease made owners of investment land try to attract customers by lowering asking prices or by a more conciliatory negotiation of prices. This resulted in the threshold of big transaction prices between 2012 and 2013.

The market of agricultural land is almost a mirror image of the situation in the sector of investment for residential properties.

Chart 4.
Structure of transactions by the use of land in the Krakow poviat
Source: Institute of Real Estate Market Monitor Analysis – mrn.pl



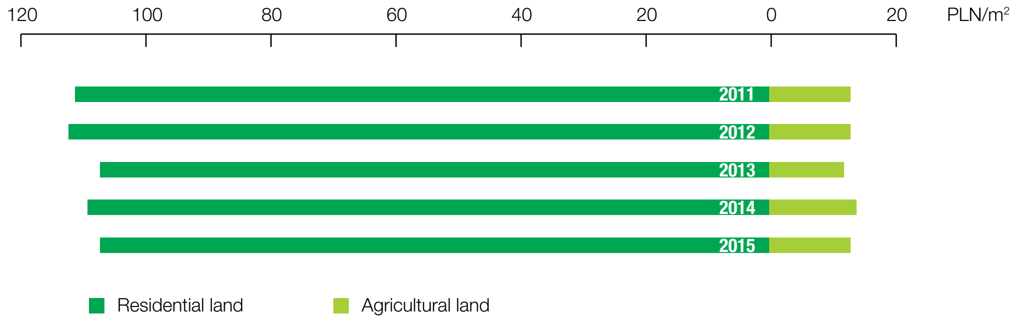


Chart 5.

Average price of land for residential purposes and agricultural purposes in the Krakow poviat

Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

The origin of this variability is similar in terms of credited purchases. Bank policy tightened also in the case of facilities of this type. But the factor changing the value over the last five years has been, above all – magnified by the media – the political risk. Various, sometimes conflicting reports about the possibility of the acquisition of land by foreigners after May 1, 2016 make it difficult to decide whether to make investments or not. After 2011, prices of agricultural land fell slightly, but permanently. Before 2011, a dynamic decline in value was predicted, however, the investments became a safer capital investment than coupon and zero coupon bonds. The renaissance of this segment took place in 2014 when the plans for purchasers of land in the Krakow poviat reached out 2-3 years ahead and were focused on the fast, profitable sale of property rights to foreigners. The draft Act on shaping the agricultural system, approved in August 2015, dampened the aspirations, which was of course reflected in the quoted prices. The prices in Krakow reached PLN 12.89/m^2 at the end of the year. (Chart 5)

Demand for undeveloped property in the Krakow poviat was centred around land provided for housing. This is due to the characteristics of the poviat's complementary nature to the functionality of Krakow. Invariably, the transaction quantity's largest share belonged to the Zabierzów and Zielonki municipalities, and positive changes in the number of contracts for the purchase of land for housing have been observed in the municipalities of Czernichów, Jerzmanowice-Przeginia, Kocmyrzów-Luborzyca, Liszki, Michałowice, Mogilany, Skała and Słomniki. In most of the above cases it is a return to the quantities of the 2011. (Chart 6)

The boom can be seen in all municipalities, because almost everywhere – if the prices have not held fast, they have not lost too much either in trading in the right of ownership. Despite the fact that Wielka Wieś has recorded a fall in the cadastral unit of about 20 transactions, it had to be and was reflected in the average unit price of a transaction which amounted to PLN 168.22/m^2 – up on the previous year by PLN 11.94/m^2. In this way, it has maintained its second position in the ranking of the most expensive municipalities in the Krakow poviat. The first position, almost continuously, has been occupied for years by the cadastral units of the Zielonki municipality – a defining feature of a luxury localization – where, in 2015, there were more than 120 purchasers of residential land, and, taking the past five years into consideration – more than 600. (Chart 7)

Better times have also come for the owners of residential land in Skawina. In 2015, for the first time in the post-crisis climate, they sold for higher prices than in the previous year. It is certainly in stark contrast to the recently finished downward trend, but a positive boost for the coming year.

This impulse was influenced by an increase in the number of transactions within the administrative boundaries of the city of Skawina and reached the average cost for a 1 m^2 of housing land equal to PLN 102.46/m^2. This city creates trends in the region, which can be seen even in the agricultural land sector. Not only was a fall of nearly 40% less contracts witnessed in relation to 2014 but a price drop was also noted.

The aforementioned overall increase in the quantity of transactions in the agricultural land sector was mainly observed in the municipalities of Liszki and Czernichów, with record sales during the last five years. (Chart 8)

Chart 6.
Number of land transactions for housing in the municipalities of the Krakow poviat
Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

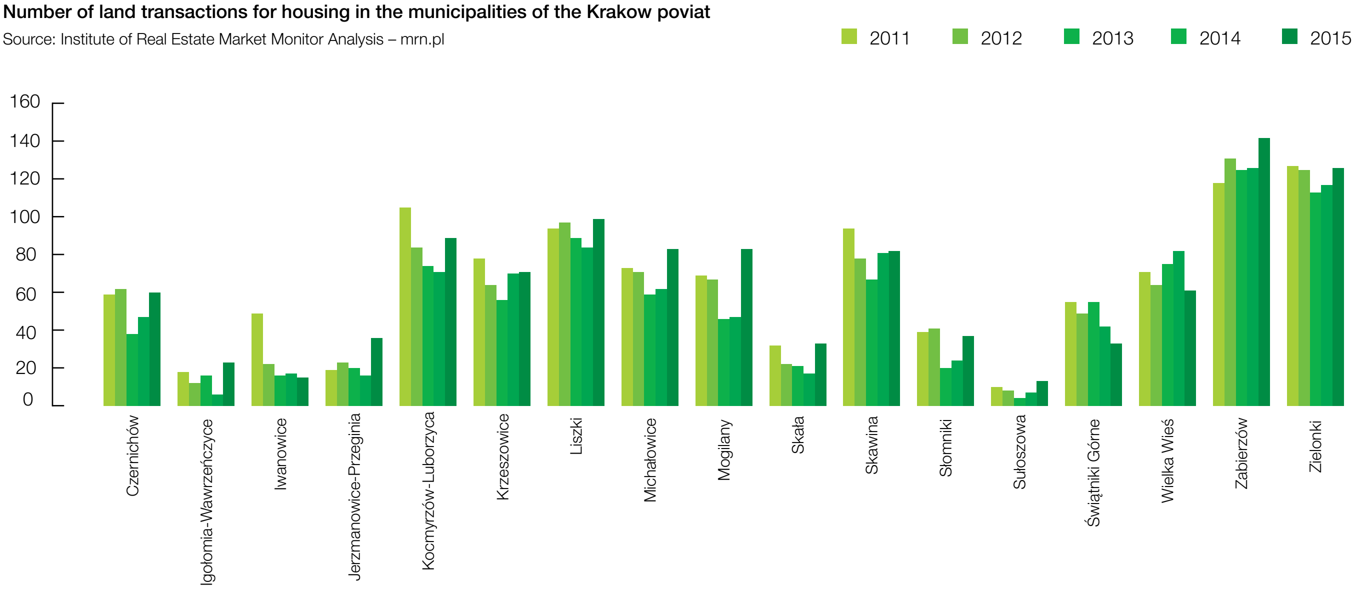


Chart 7.
Average land prices for housing purposes in the Krakow poviat
Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

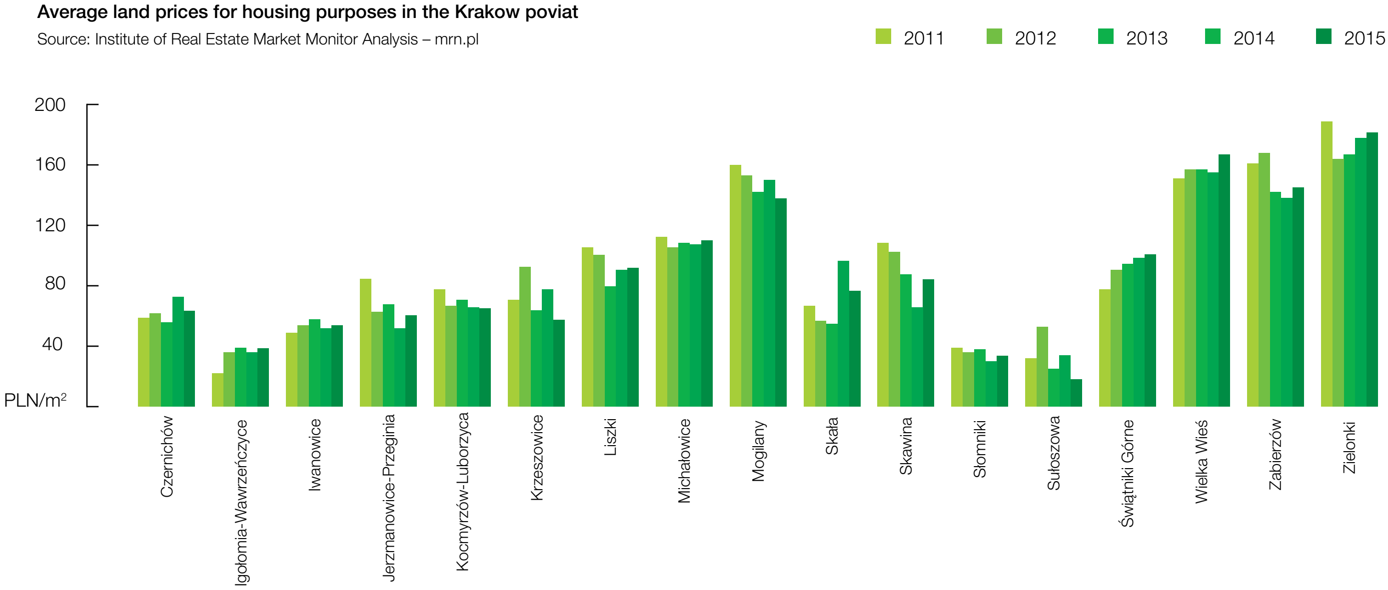


Chart 8.
Number of land transactions for agricultural purpose in the Krakow poviat
Source: Institute of Real Estate Market Monitor Analysis – mrn.pl

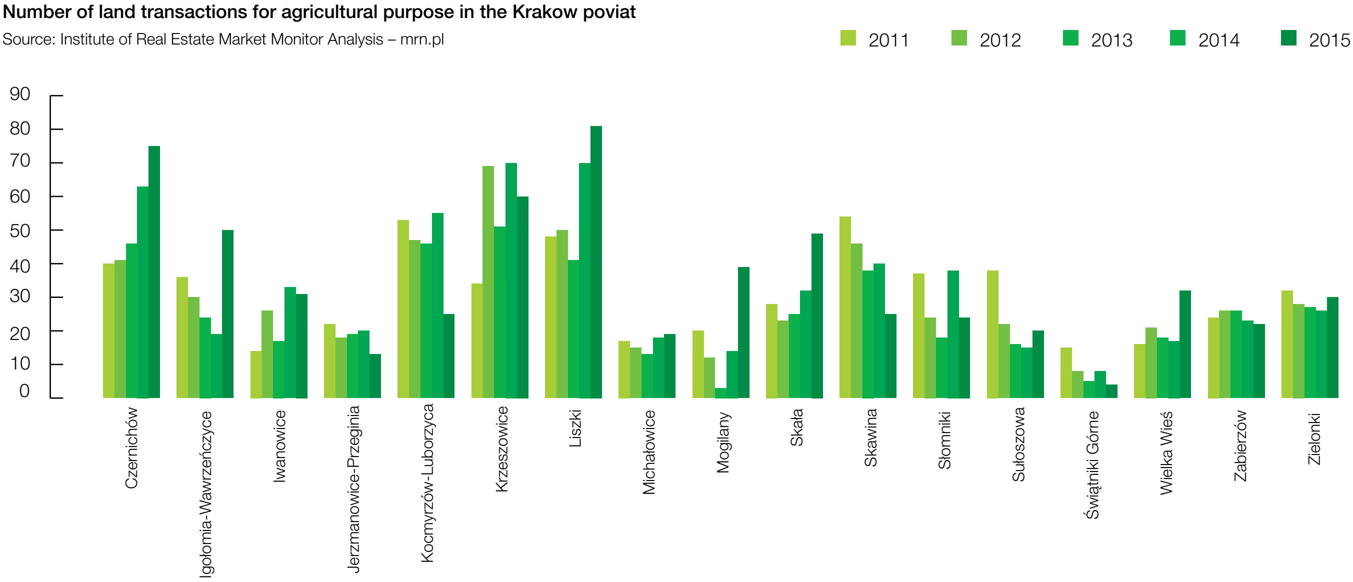
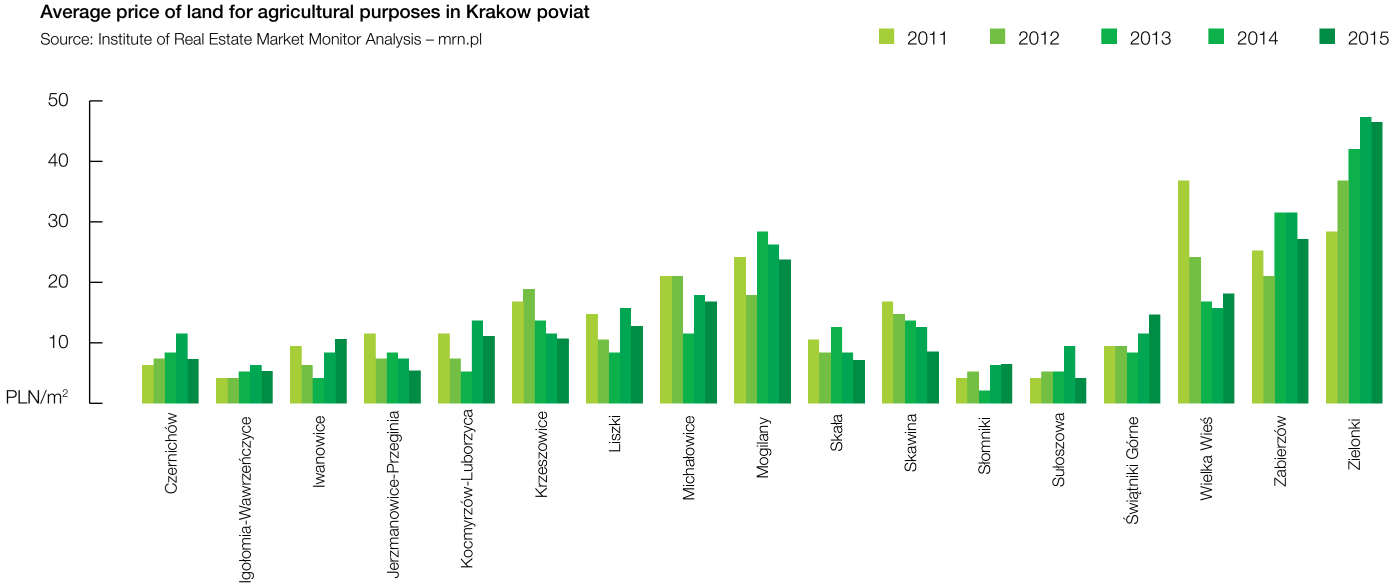


Chart 9.
Average price of land for agricultural purposes in Krakow poviat
Source: Institute of Real Estate Market Monitor Analysis – mrn.pl



But the market is implacable: big sales mean lower prices. And lower were the payments by purchasers of land in relation to 2014, both in Liszki and in Czernichów, PLN 12.12 and 6.99/m², respectively. There were several unprecedented increases in the share of the Mogilany quantity of transactions in agricultural land, but this seems to be a one-off incident, as compared to previous years. The number of contracts concluded there would have been much lower if not for several one-day transfers of ownership of 15 plots of the Agricultural Production Cooperative in Libertów to individuals, with an average amount in the order of PLN 28.83/m². This slightly lowered the average cash equivalent for the municipality, but it still takes third position among the most expensive areas. First position was taken by the cadastral units of the Zielonki municipality, second position was taken by the municipality of Zabierzów. In the statistics of the cheapest municipalities in the agricultural land sector, Sułoszowa is the leader, followed by Igołomia-Wawrzeńczyce, Jerzmanowice-Przeginia, Słomniki and Skała. (Chart 9)

An important feature of the real estate market recognized within the administrative district of the Krakow poviat is the fact that the main influence on price is none of the municipalities analysed in the poviat, but the city of Krakow itself. The city influences the number of transactions and the level of prices recorded. A slightly generalized principle can be adopted assuming that the prices of land for housing purposes are getting lower with the increasing distance from Krakow. The situation is similar in the agricultural property sector, but the spread is more uniform, without the clear pricing pits which can be seen on the outskirts of the poviat (e.g. in Sułoszowa). This general principle of the spread of unit prices is disturbed by local centres, within which (and in the buffer zone) the value of land is increasing, but it will not grow to the size of the observed cash equivalents in the most expensive municipalities in the poviat.

Summary

The undeveloped land market in the Krakow poviat recorded a marked increase in the number of transactions and a dynamic increase in trading volume. There has been a positive change in the number of service land transactions and in real estate prices with very good characteristics of the market (including location).

Real estate prices of land for housing and agriculture purposes were stable in the period from 2011 to 2015 and during 2015 there were no changes in real terms. Invariably, the greatest demand for land for housing development is observed in the municipalities of Zielonki, Zabierzów, Mogilany and Wielka Wieś. There, individual transaction prices are also the highest. The greatest number of transfers of ownership of agricultural property occurred in the municipalities of Czernichów and Liszki, while the highest prices were recorded in the municipalities of Zielonki, Zabierzów, Mogilany and Wielka Wieś.

The system of the cyclical real estate market of the residential function is undergoing a recovery phase, and the agricultural function has been moving towards the phase of 2014.

Significant changes in the trends established in 2015 and in the market transition to recession are not forecasted for 2016.

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Podgórze
Nowa Huta
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Mistrzejowice XV
Wzgórza Krzesławickie XVII
Prądnik Czerwony III
Bieńczyce XVI
Bronowice VI
Krowodrza V
Zwierzyniec VII
Stare Miasto I
Grzegórzki II
Czyżyny XIV
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Podgórze XIII
Dębniki VIII
Łagiewniki-Borek Fałęcki IX
Podgórze Duchackie XI
Bieżanów-Prokocim XII
Swoszowice X

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