KRAKÓW

KRAKOW REAL ESTATE MARKET 2016 p. II

Krakow
2017

Partnerzy: Institute of Real Estate Market Monitor Analysis mrn.pl
www.mrn.pl
e-mail: zarzad@mrn.pl

Graphic: Papercut
Photos: Marcin Sigmund
Translation: Idea Group

The first part of the Krakow Real Estate Market 2016 (Offices, Hotels, Retail Space, Warehouses, Investment market) is published on www.krakow.pl in the business tag.

APARTMENTS – PRIMARY MARKET

2016 was another very good year on the primary housing market in Krakow. For three years, the rate of sales of residential units in the capital of the Małopolska Region has not fallen. The average number of residential investments in the city area was around 200, which resulted in some residents calling such a strong commitment "concreting over the city". It was only in the last quarter that the number of sites where new residential units were being constructed fell slightly. (Chart 1) However, that does not mean a fall in the involvement of developers. Big companies have now entered the pool. With such a good housing situation, they are not afraid to call up all of their reserves and immediately commit their entire investment in the area they have acquired instead of moving in stages.

The largest number of investments were carried out in the area of the former district of Podgórze, because of its regional dominance over the other old districts. Despite the fact that the area of Nowa Huta is also a large area, because of the long-lasting negative associations of residents with the area, only a small share of the developer market is concentrated there.

Despite the fact that the number of investments in the city decreased slightly, the number of dwellings on offer increased, indicating the growing significance of the large development projects that have recently invigorated the market. This resulted in a record supply of apartments in the second half of 2016, at a level not previously recorded on the Krakow housing market. (Chart 2)

The investment boom continues to be at a high level and investor involvement continues to gain momentum

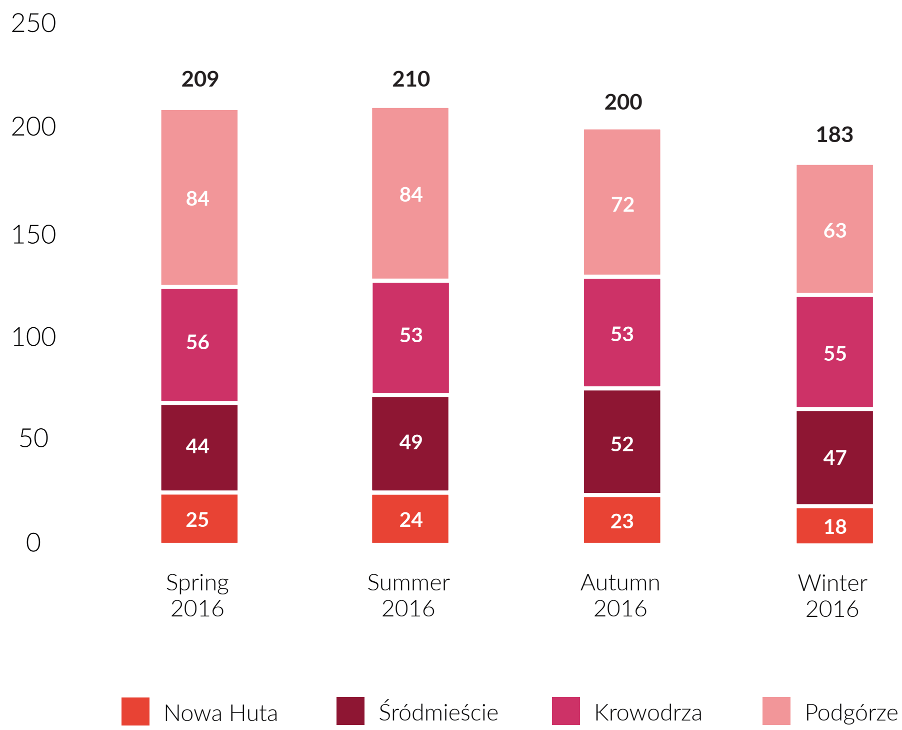


Chart 1. Number of investments in individual quarters in 2016

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

There are approx. 120 real estate developers in Krakow, and despite the fact that the majority of apartments are provided by the large ones, there is usually no place for architectural "waterfalls" in larger investments, and more interesting facilities are mainly smaller, intimate investments.

On the other hand, it is the portfolios of large companies that include more and more turnkey housing, which does not happen in small investments. In turn, smaller companies operate mainly closer to the centre, where it is already tight and the so-called "seals" need to be constructed. There has been a constant demand for smaller and more intimate, and often innovative buildings in Krakow.

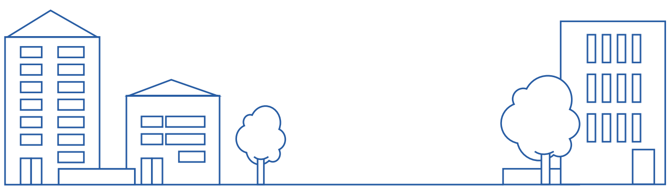
At present, the majority of purchases are cash transactions, resulting in low interest rates on investments and a lack of confidence in alternative equity instruments (e.g. the stock market).

The average asking price for all (10,500 units) of the apartments available for sale has been approx. PLN 6,000/m² for the last two years, with slight fluctuations due to the different prices of the new investments launched onto the market. (Chart 3) When the advantage is of cheaper investments, the average price goes down and it goes up when more expensive projects enter the market. However, the overall prices in the city area are stable.

The average level of prices for developer apartments offered on the primary market is derived from the locations in the Krakow area. The highest prices are quoted in the Śródmieście – it is a combination of the prestigious location and the accumulation of the highest standard of housing in this area.

Expensive housing estates are located in the Krowodrza district where mainly apartment buildings and representative villa buildings have been developed over the years, taking advantage of the proximity of the numerous green areas in the district.

The third in terms of price classification is the area of Podgórze – the largest area of construction – where nearly



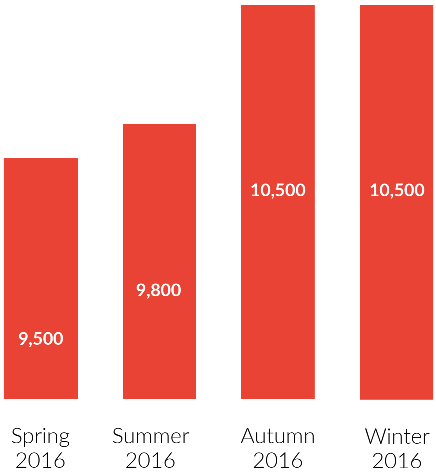


Chart 2.

Number of apartments on offer by quarter in 2016*

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

* the apartmentsavailable also include the apartments included in the reserves

The key to good sales is still low interest rates, and the recently raised bank margins and increase in buyer contribution to the purchase of apartments to 20% are not yet significant enough to lead to a noticeable downturn in the credit market

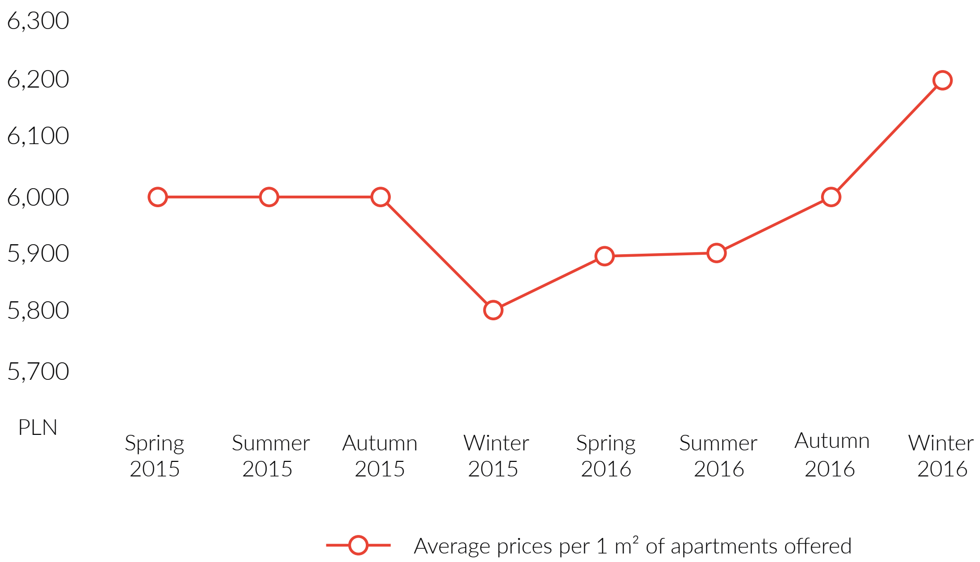


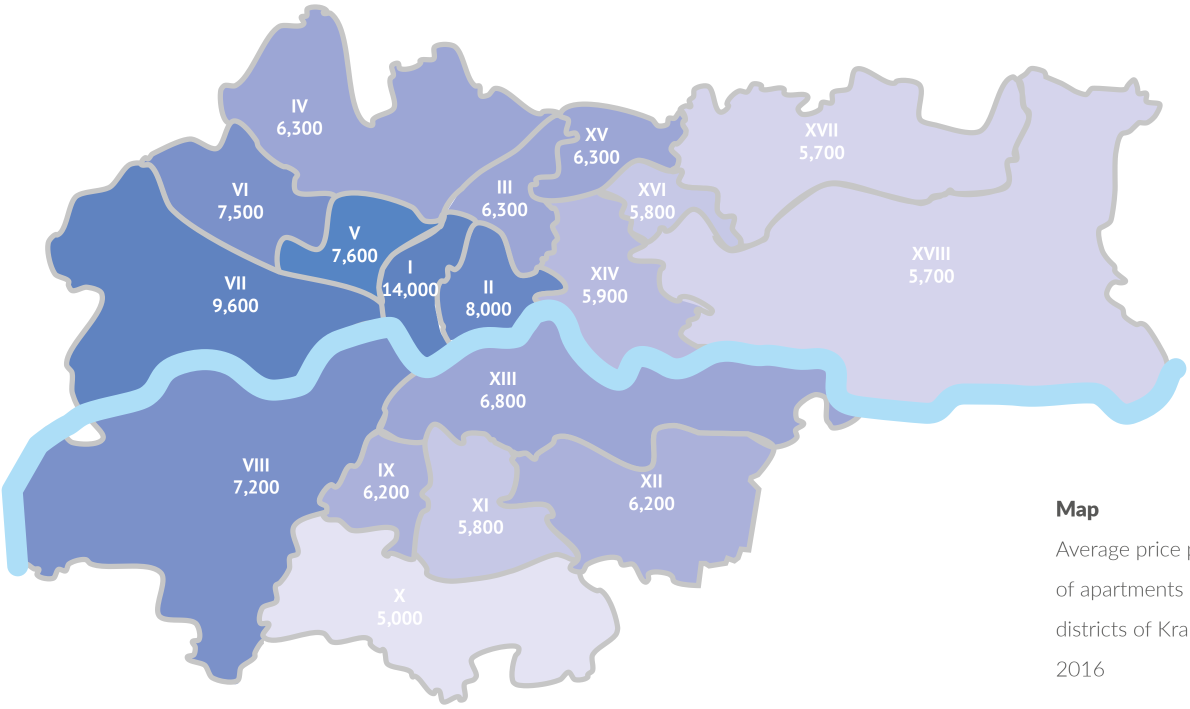
Chart 3.
Average prices per 1 m² of apartments offered in each quarter (2015–2016)

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

half of development investments have been concentrated for several years.

The cheapest, as always, is in the Nowa Huta area, with its unfortunate historical connotations, although it is improving its position year after year, mainly among the people who appreciate the existing communication infrastructure in the area and the large green areas.

Analyzing the situation in individual districts of the city, there is a clear stratification of prices visible, depending on the location. (Map)



Map

Average price per 1 m² of apartments in the districts of Krakow in 2016

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

The cyclical research, conducted for 9 years by the Institute of Real Estate Market Monitor Analysis mrn.pl at the Krakow Housing Fair, shows that 2- and 3-room apartments with the minimum parameters for the area are the most sought-after. Hence, in a few locations a separate kitchen, or such practical rooms as a dressing room or a pantry can be found in the apartments on sale. At the same time, it has been observed that, while the price of apartments has been falling to the current level, the average floorspace of the apartments purchased has been slowly growing. Over the past five years it has increased by 2 m² and it is currently 50 m². Developers, adapting their portfolio to match their customers' expectations, would like to construct mainly small apartments, but the barrier to this is the provision of an adequate number of parking spaces, so they cannot provide only the small apartments which are always the first to be sold out from each development.

For the last three years, the number of apartments sold in the city area has oscillated between 8 and 9 thousand annually

Only a few years ago, an average of about 5 thousand apartments every year were sold in the primary market segment. For three years, the number of apartments sold in the city area has fluctuated between 8 and 9 thousand annually. As a rule, better sales are always available in the second half of the year, and thus it was in 2016. (Chart 4)

Good housing sales cause price stability despite a large supply surplus. Last year a slight increase in the average price was recorded which, after nearly 2 years, exceeded the level of PLN 6,000/m². Current, the supply is likely to stabilize prices at this level for the coming half-year. This should maintain good sales levels in the near future. The longer-term perspective depends mainly on the decision of the Monetary Policy Council. If interest rates rise, the market may experience a downturn. As long as such external factors do not occur, the market should maintain the current state of stabilization.

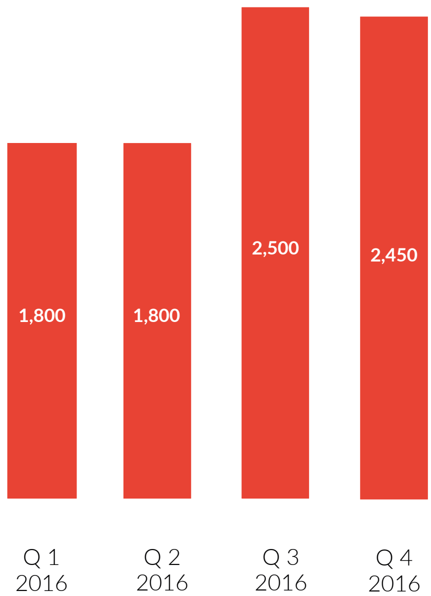


Chart 4.
The number of apartments sold on the primary market in quarterly terms in 2016*

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

* the apartments sold did not include apartments included in the reserves

APARTMENTS – SECONDARY MARKET

Last year saw a clear downward trend in the number of transactions in the secondary market. Declines were observed in all register units, with the smallest ones in the area of Podgórze, where most of the apartments are sold on the secondary market. This is closely related to the largest development activity. Nearly half of all housing is constructed in the area of this old district. Over time, the apartments feed the secondary market, increasing the volume of transactions in this market segment. The smallest number of apartments are sold in the areas of: Śródmieście – due to high prices – and Nowa Huta, where the least apartments are constructed. The turnover on the secondary market in Nowa Huta will probably increase after 2018.

In Podgórze, the largest number of apartments is sold on the secondary market

After 2015, in which a record number of apartments were sold, the secondary market slightly deteriorated. The cause may be strong competition from the primary market. Investment purchases (for rent), now being a more favourable alternative to bank savings, are primarily implemented on the primary market. The largest decrease in the number of transactions was recorded in the Krowodrza district which was had been milked in previous years. Investors do not care about the lowest prices, but good locations, where people will be willing to rent and in areas where, after the return period, there will not be any problems with the fast sale of properties.

The average selling prices for new and used apartments in 2016 were similar, except that the primary market mainly concerned the outskirts of the city, and the turnover on the secondary market was generated mainly in areas adjacent to the city centre. In other words, we can buy a new apartment on the outskirts for the same unit price as a used one near the centre. If we compare the same locations, adding approx. 10% to the purchase price of a secondary market unit, purchasers could enjoy a new flat with a similar floorspace, but to be completely finished.

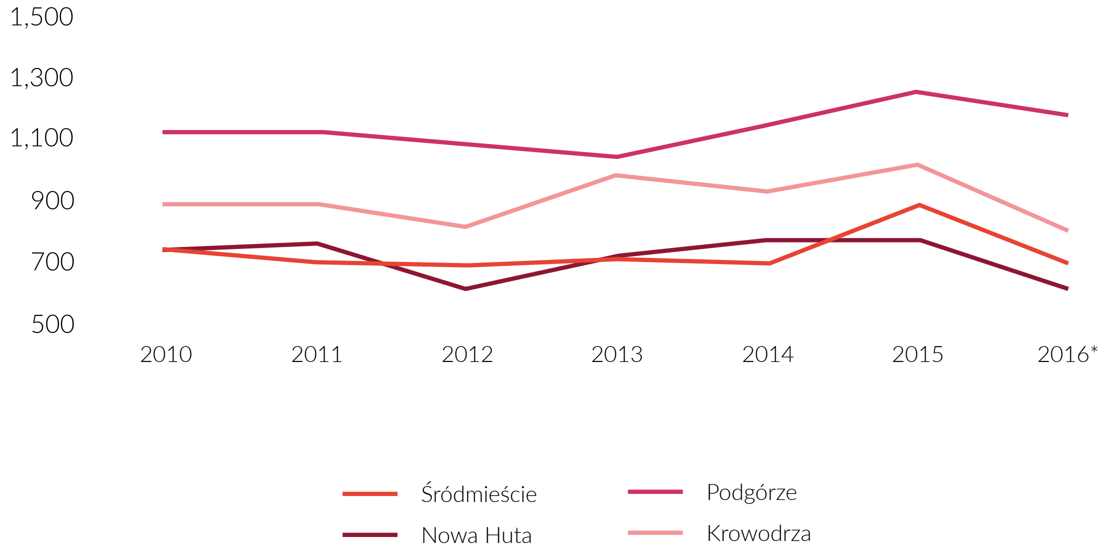


Chart 1. Number of transactions on the secondary housing market (2010–2016)

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

* estimates on the basis of incomplete data

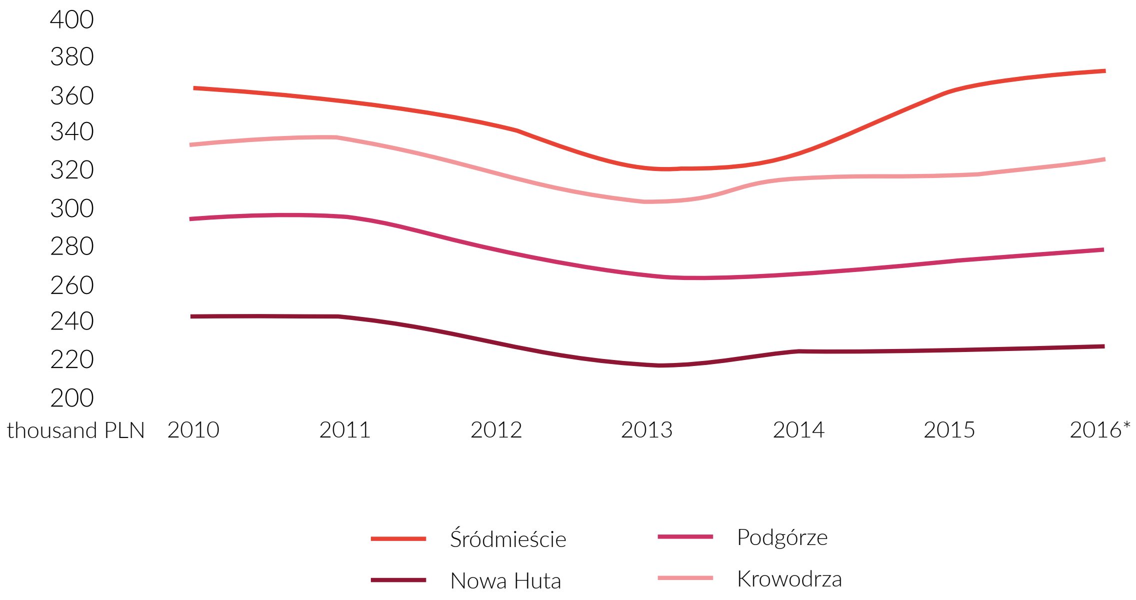


Chart 2.

Average price of apartments on the secondary market (2010–2016)

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

* estimates on the basis of incomplete data

The attractiveness of particular areas of Krakow can be seen when analysing the average prices charged for the premises in the four former districts. The highest interest, and consequently the highest prices, is recorded in Śródmieście and Krowodrza. Lower prices are recorded in Podgórze and, traditionally, Nowa Huta is the cheapest. A little more light is also shed by the average floorspace of the apartments sold, the smallest in Nowa Huta and the largest in Śródmieście, which strengthens the differences in average transaction prices.

In 2014, there was a slight increase in transaction prices. However, in 2015 it was still the case only in the urban area. In 2016, a slight increase was recorded in Krowodrza and Śródmieście, it was much smaller in Podgórze, and in Nowa Huta the prices were practically unchanged.

2016 was the fifth consecutive year when the average price of acquired units remained below PLN 300,000 per unit. The average unit price per m² of the units sold on the secondary market in 2016 decreased by about 0.5%, as compared to the previous year, amounting to slightly above PLN 6 thousand per m². However, this is rather a result of the behaviour of prices in Śródmieście itself, which increased a year earlier to increase the citywide average by 3%, and then decreased in 2016. In other registry units, average prices did not change and stagnation has continued since 2014.

The turnover on the secondary market is generated primarily in the areas adjacent to the city centre

For the city as a whole, the average floorspace purchased on the secondary market in 2016 increased by 1 m² and amounted to 50 m².

In terms of the division into administrative districts, the distribution of average transaction prices on the secondary market is not surprising. The districts located near the centre have the highest prices per square meter of the usable floorspace. At the forefront are the Old Town and Krowodrza and Zwierzyniec, due to their immediate vicinity. The district of Dębniki looks good, though the average price in Dębniki is high because of the areas that are closest to the centre, i.e. old Dębniki and the Podwawelskie Housing Estate. The lower price level in Grzegórzki may be surprising, but this sales area is dominated by low-standard apartments. The lowest average prices are recorded in Bieżanów–Prokocim, Bieńczyce, Nowa Huta and the Krzesławickie Hills.

On the secondary market, as in previous years, mainly small apartments were sold. Large apartments relatively rarely appear on the market. In 2016, transactions of more than 65 m² accounted for 17% of all transactions, and the sales of apartments above 100 m² were less than 3% of the total

The highest prices are recorded in Śródmieście and Krowodrza, lower in Podgórze and the lowest in Nowa Huta

6,015 PLN Average price per m²

50 m² Average floorspace

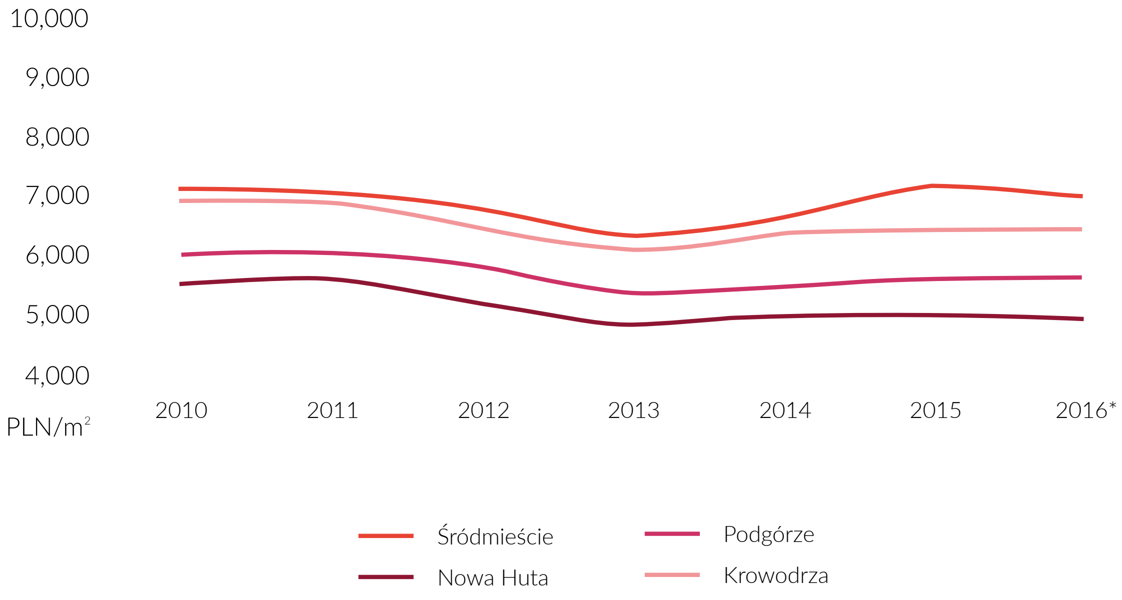
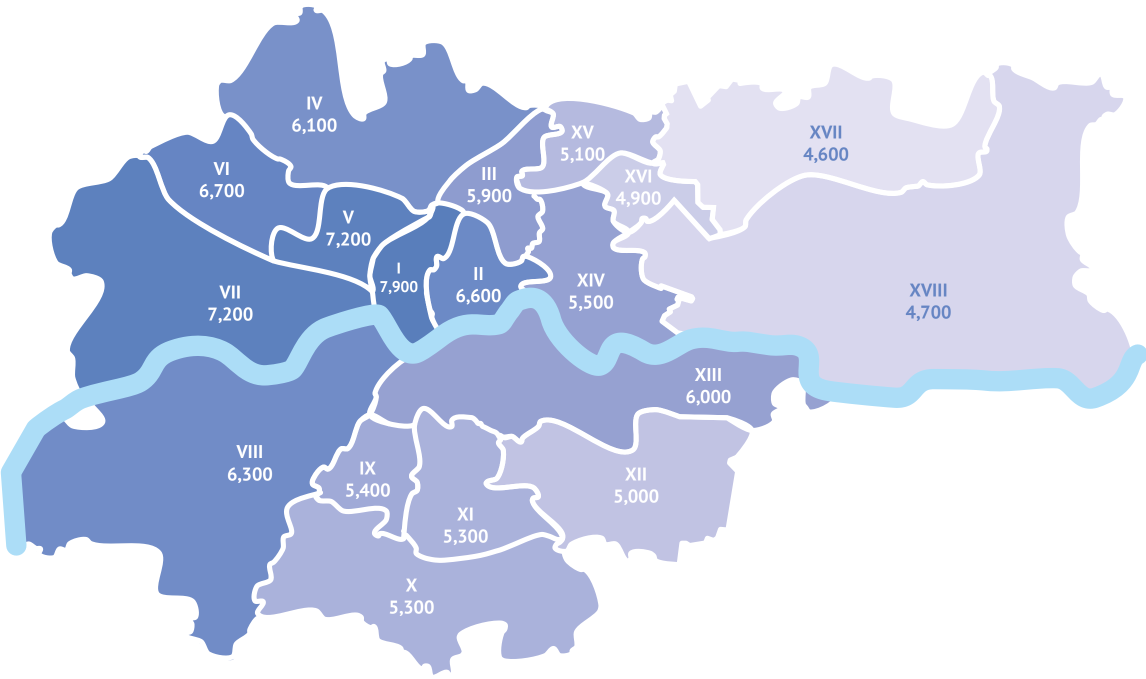


Chart 3.
Average price per m² in an apartment on the secondary market (2010–2016)

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

* estimates on the basis of incomplete data



Map

Average price per m² of apartments on the secondary market in the districts of Krakow in 2016

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

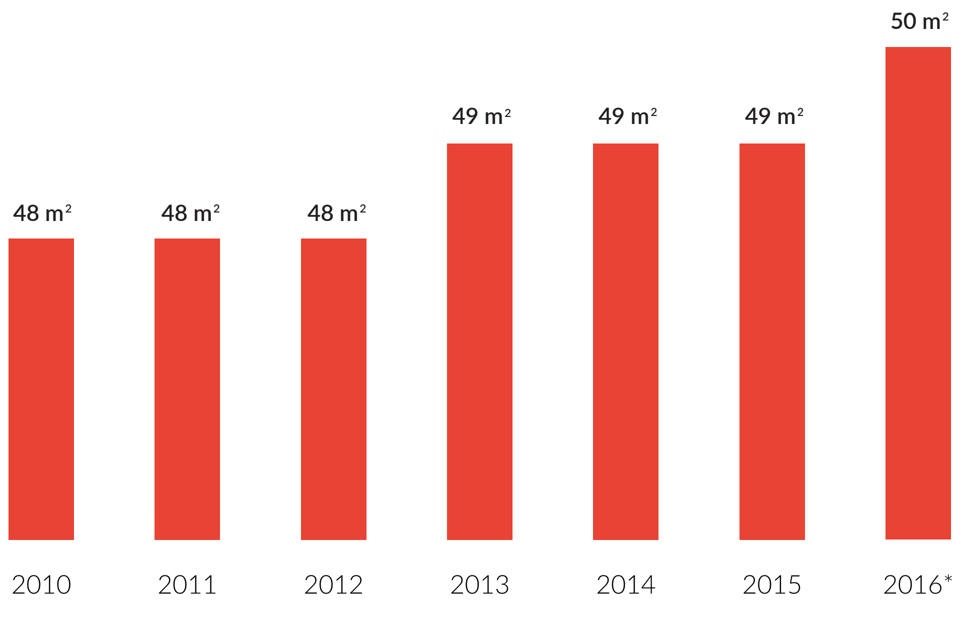


Chart 4.

Average area of residential premises on the secondary market in Krakow (2010–2016)

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

* estimates on the basis of incomplete data

market. This situation has been going on for a long time and it will be difficult to change it, as nowadays, small-sized units are being constructed and they will, over time, feed the secondary market, causing the current trends to persist.

A result of the reduction in the number of transactions on the secondary market in 2016 was a drop in turnover which, after a significant increase in 2015, fell back to the level of 2014. It seems, therefore, that the secondary market has lost the battle for customers with the primary market, which sold over 2.5 times more apartments than the secondary market in 2016.

SUMMARY

- 2016 was another year with a huge domestic demand for housing in Krakow. It was concentrated mainly on the primary market while the secondary market recorded a decline in turnover to the level of 2 years ago.
- In all districts, mainly small apartments were sold, and wealthier customers preferred the primary market.
- As compared to 2015, there was a slight decrease in the prices in Śródmieście (approx. 2%), while the prices of used apartments remained practically unchanged in the other old districts.

> The average prices in the administrative districts are clearly correlated with the distance from the centre – the highest prices are recorded in the Old Town

In 2017, the secondary housing market in Krakow is expected to be stable in price. Barriers to price growth and primary market competition are too strong to expect housing prices to appreciate.

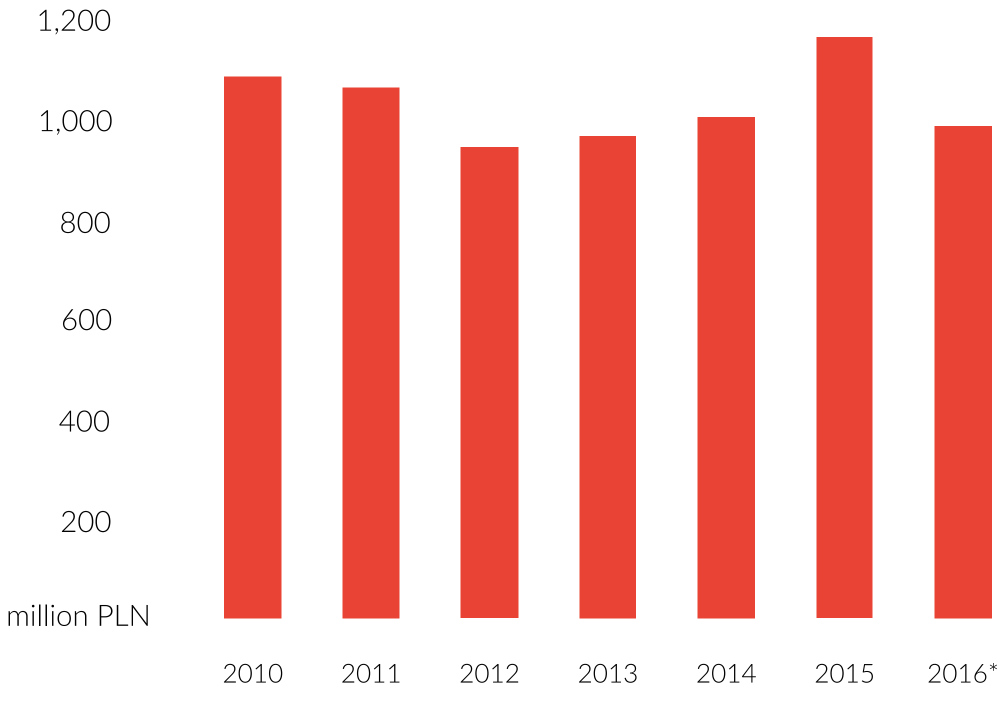


Chart 5.
Turnover on the secondary housing market (2010–2016)

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

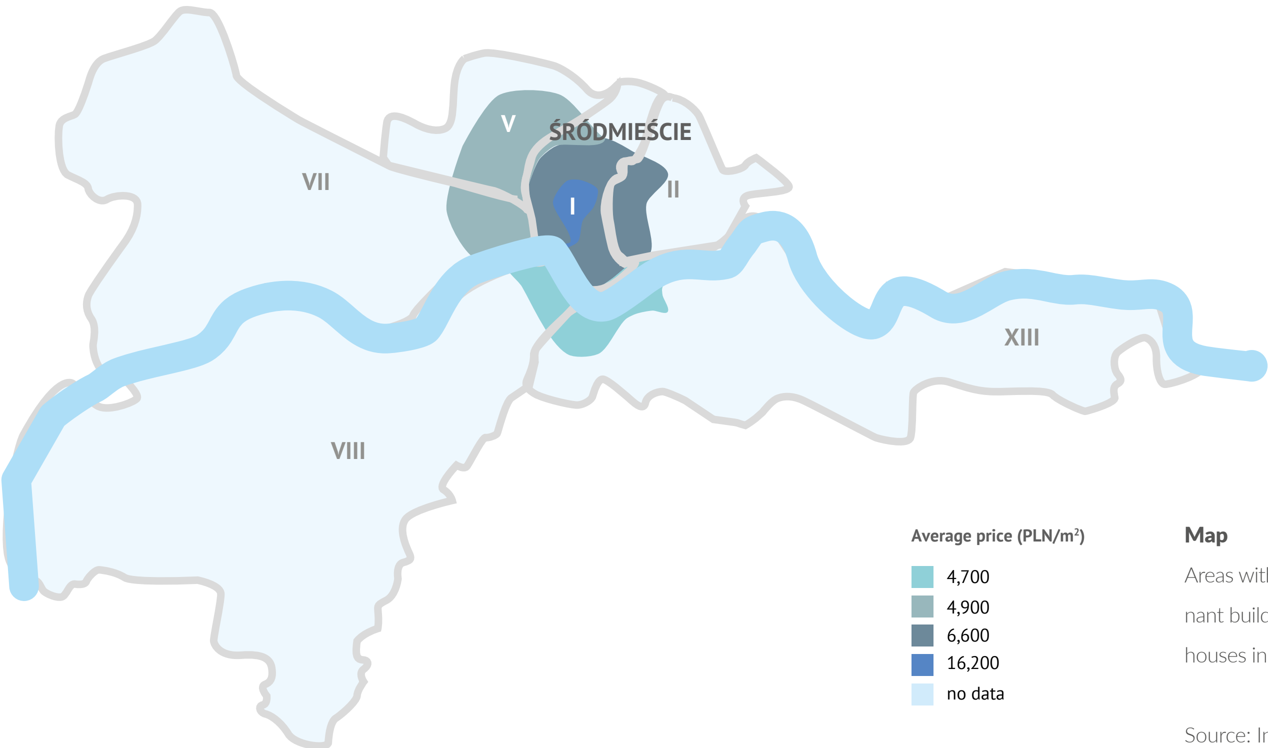
* estimates on the basis of incomplete data

TOWNHOUSES AND HISTORICAL PLACES

The market for real estate within the pre-war borders of Krakow is dominated by the trading of townhouses – pre-war and even medieval – often historic buildings with a dominant residential function. Urban townhouse complexes include the oldest part of the old districts: Krowodrza, Podgórze, and in particular Śródmieście with the heart of Krakow – the Old Town, now surrounded by Planty, and formerly – medieval defensive walls.

Townhouses fill the city centre, which is most attractive for investors as well as residents and the tenants of commercial premises, providing the highest income from rents and services (trade, tourism and gastronomy).

The market for townhouses is most closely correlated with the residential market – especially the apartment market – along with the commercial space market and the hotel and tourism market, the services most often housed within these buildings



Map

Areas with predominant buildings of townhouses in Krakow

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

MOST EXPENSIVE LOCATIONS

Townhouses are dominant in four areas of the city: in the Old Town surrounded by Planty and in the pre-war parts of the districts of Śródmieście, Krowodrza and Podgórze. (Map)

RESOURCE AND SUPPLY

In Śródmieście, there are about 7,000 pre-war townhouses, 2,000 in Krowodrza and almost 1,000 in Podgórze. A significant number of the townhouses have an unsettled legal status (lack of physical division of the townhouse and distribution of shares). Another trend is the permanent division and separation of individual residential real estate units. The supply of whole townhouses is therefore considerably reduced, and the emerging new offers are most frequently the result of further regulations of the legal status, particularly property rights. However, year on year, decreases in the sales of whole townhouses have been recorded. In contrast, the supply of shares in townhouses for sale is still very large.

More than a quarter of Krakow's apartments were constructed over 60 years ago, which means 90,000 apartments in 10,000 townhouses, of which 1,000 are in the register of listed buildings of the city of Krakow

MARKET TURNOVER

In 2016, 41 transactions of whole townhouses and 126 transactions of shares were concluded, which is a slight decrease, as compared to 2015. (Chart 1)

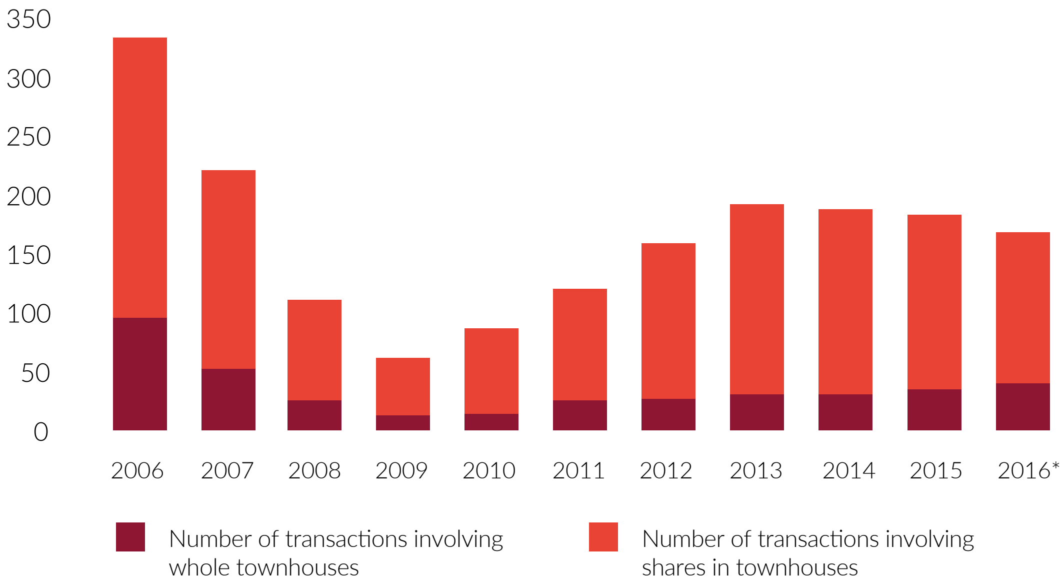


Chart 1. Number of transactions in the townhouse market (2006–2016)

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

* estimates on the basis of incomplete data

On the other hand, market turnover in 2016 amounted to PLN 320 million, of which PLN 222 million was paid by the purchasers of whole townhouses.

The falling number of transactions as compared to 2015 is due to the specifics of this market – the supply of townhouses decreases year after year despite the high interest in investments in historical Krakow properties, maintained by the buoyancy of the apartment market in recent years.

The average price for a townhouse in 2016 amounted to PLN 5.3 million (PLN 3.8 million in 2015)

PRICES OF TOWNHOUSES

After the boom period of 2003–2007 and the corrections in 2016, the year marked a clear return to the upward trend. (Chart 3) The average unit price of an apartment building in the most desirable Śródmieście area amounted to over PLN 7,600 per m² of usable floorspace, up by more than 9% as compared to 2015. Similar price trends have also occurred in other correlated real estate markets.

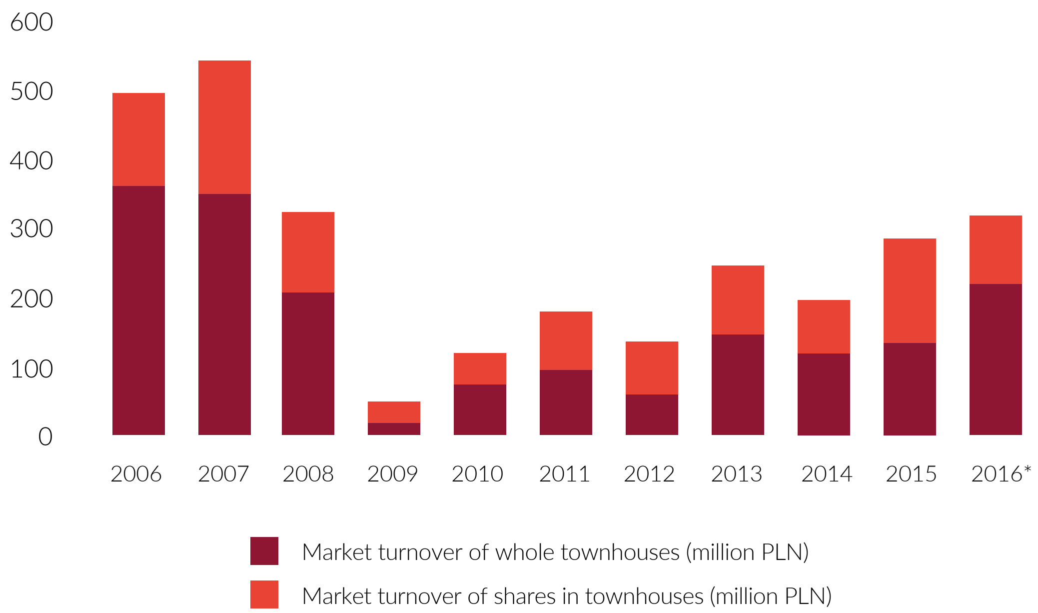


Chart 2.
Market turnover of townhouses and shares in townhouses (2006–2016)

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

* estimates on the basis of incomplete data

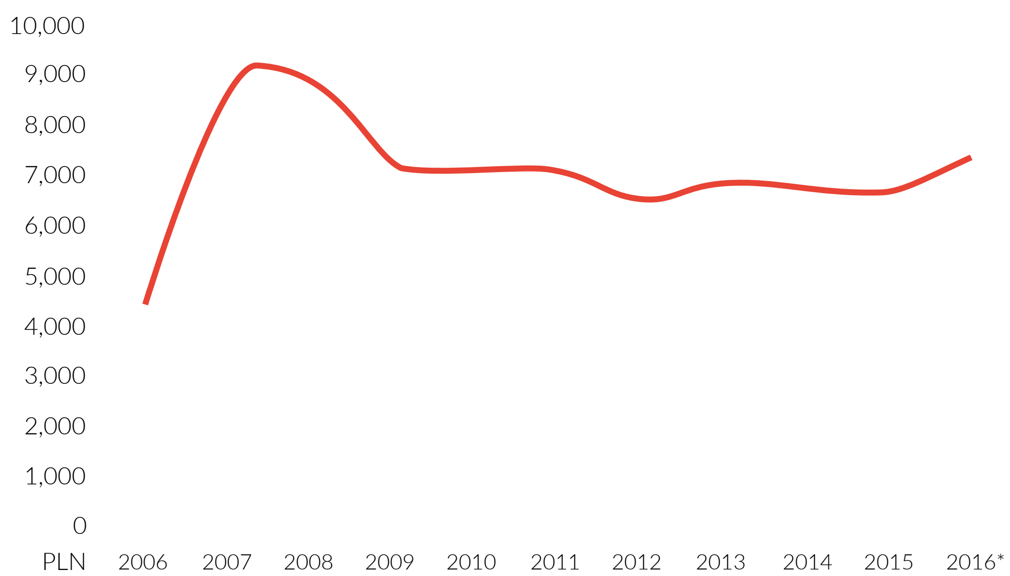


Chart 3.
Average price of 1 m² of usable floorspace in Śródmieście (2006–2016)

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

* estimates on the basis of incomplete data

Individual areas of the townhouse market, however, are characterized by different parameters:

The Old Town is the smallest local market area, but it is the most attractive for apartment, tourist and commercial purposes.

3 townhouses
6 shares in townhouses
Sold in 2016

90 mln PLN — Turnover

16,244 PLN — Average price per m^2

Śródmieście (outside the Old Town) is, in turn, the local market with the largest supply of townhouses, very popular for apartment and tourist functions.

27 townhouses
69 shares in townhouses
Sold in 2016

174 mln PLN — Turnover

6,599 PLN — Average price per m^2

Krowodrza is a local market dominated by the apartment sector.

2 townhouses
13 shares in townhouses
Sold in 2016

22 mln PLN — Turnover

4,902 PLN — Average price per m^2

Podgórze is the least expensive local market for townhouses, also dominated by investors from the residential sector.

9 townhouses
38 shares in townhouses
Sold in 2016

35 mln PLN — Turnover

4,704 PLN — Average price per m^2

In 2016, the lowest return on a tenement sale transation was 6.5%

The average price paid in 2016 for a townhouse in Krakow was PLN 5.3 million (against PLN 3.8 million in 2015), and the maximum price of PLN 16.5 million was paid for a townhouse in Floriańska in the Old Town.

In Śródmieście (outside the Old Town) the highest price was PLN 12.3 million, and in Podgórze – PLN 7.2 million.

The greatest influence on the price of townhouses – apart from their size – is exercised by the location attractiveness, measured in terms of the distance to the Main Market, technical and utility conditions, degree of utilization with respect to the amount of rental income (from commercial space rented 300–400 PLN/m^2, to tenants with regulated rent 6–14 PLN/m^2) and the investment potential expressed in terms of extension or adaptation.

Increasingly, the basis for calculating the cost-effective purchase price of a townhouse is the expected rate of return. In 2016, the lowest return on sales was 6.5% for the townhouse in Floriańska, fully leased for a period of 10 years, which corresponds to a low risk level (at the level of the best office buildings in Warsaw).

DEMAND

The largest share of demand in 2016 was that of investors in the residential and apartment sectors, but more and more townhouses were bought for the hotel and tourism market (for hotels, hostels, guest houses, gastronomy). The demand from the hotel and tourism industry is, however, generally limited to whole townhouses, in line with the specificity of the services. There is also a downward pressure on demand for investors looking for townhouses under the distinctive locations of offices and corporate offices and representative shops in the centre and in the main streets. The investment attractiveness of townhouses is reflected by numerous new apartment developments in the city centre, the so-called "seals" (supplementary buildings between the existing townhouses).

FORECAST

It is forecast that in the next few years the townhouse market will continue its upward trend with the development of the entire real estate market in Krakow. The factors that will stimulate these trends will continue to be cheap loans, the boom in the apartment market, better and better business conditions in the hotel industry and the continuing good brand of Krakow that attracts foreign investors.

SINGLE-FAMILY HOUSES

PRIMARY MARKET

The high activity of developers on the housing market continues to limit the development of the single-family market. Because of the costs, houses are sold directly by developers.

Since 2012, there has been a marked decrease in the volume of turnover and the number of transactions. In 2015, the number of transactions recorded was the same as in 2014, with a significant decrease in trading volume of nearly PLN 32 million. The number of transactions in 2016 estimated as approx. 60, with a slight increase in turnover to about PLN 35 million. (Chart 1)

Preliminary data shows that 2016 brought a slight reversal of the downward trend or a stabilization of turnover in the primary market of single-family houses

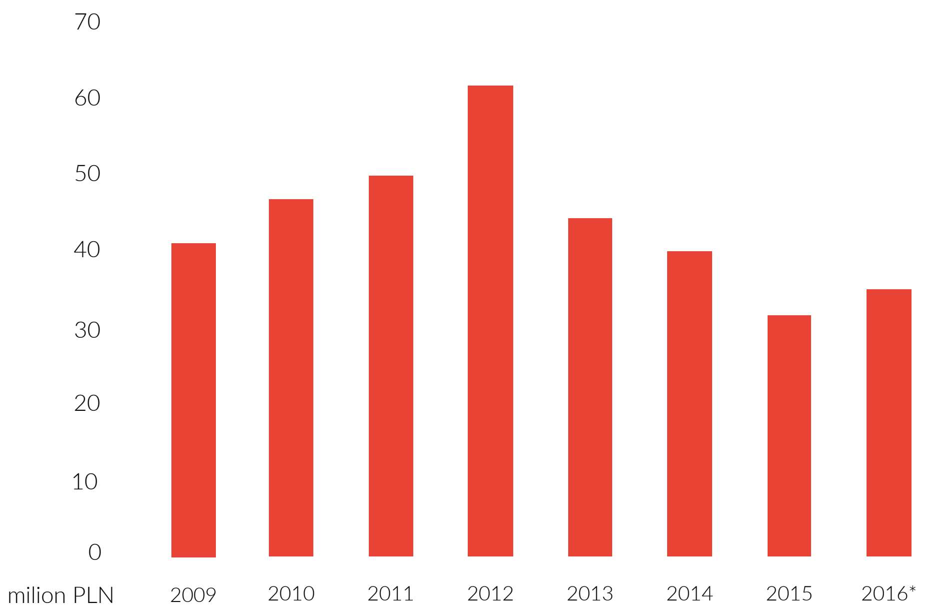


Chart 1. Turnover of single-family houses in the primary market (2009–2016)

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

* estimates based on incomplete data

The primary market of single-family houses is strongly diversified in the areas of the former districts of Krakow. The purchasers are most active in Podgórze. The number of houses sold in this district represents almost 80% of all transactions and is strongly correlated with the number of developer investments. There are only a few transactions per year in Krowodrza and Nowa Huta and, in the last few years, in Śródmieście, there has been only one single transaction.

The number of houses sold in the Podgórze region accounts for almost 80% of all transactions

In 2015, there was a correction of prices, as compared to 2014; the average transaction price fell by 12% then. In 2016, a further fall in the average price was observed, which resulted in a level below that of 2013. This means that developers are selling houses with smaller and smaller floorspaces. The average floorspace of a single-family house sold on the property market in 2015 was 139 m² and, according to preliminary data, it was smaller in 2016.

Developers sell houses with smaller and smaller floorspaces

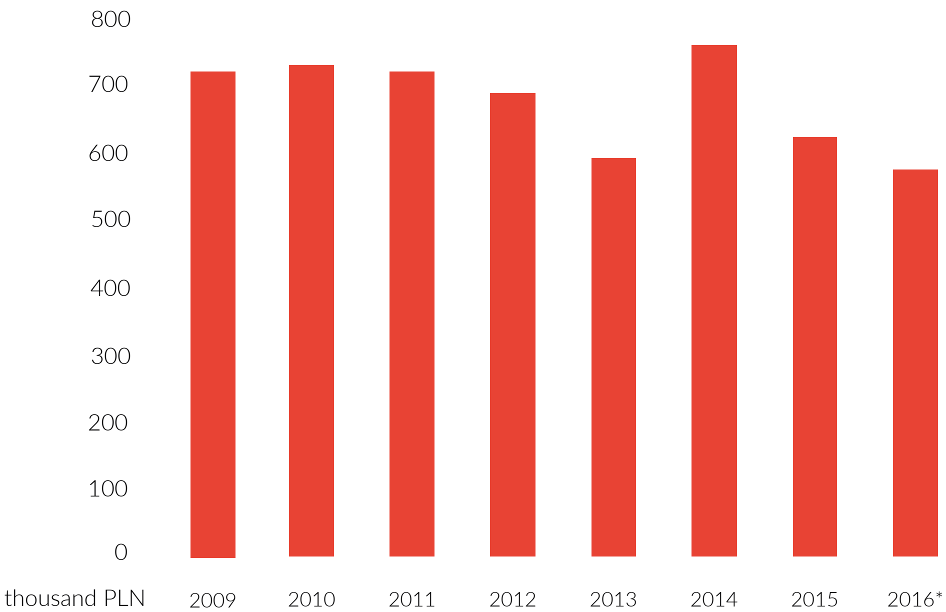
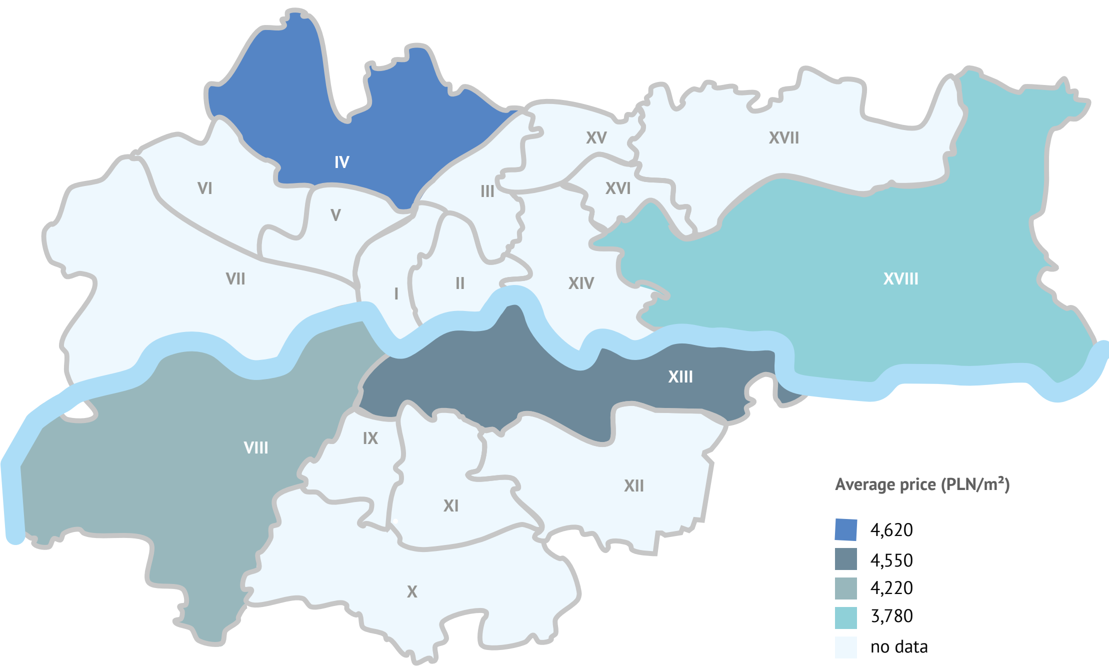


Chart 2.
Average transaction price for a single--family house on the primary market (2009–2016)

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

* estimates based on incomplete data



Map 1.
Average price for a single-family house on the primary market in 2016

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

The average price per m² of usable floorspace reached its minimum level in 2013, and in the next two years it was making up for the losses. In 2016, the average price per m² of usable floorspace was at the level of PLN 4,290, which was slightly lower than in 2014.

In 2016, the unit price per m² of usable floorspace of a house in Krakow was PLN 3,153–5,621, with no sales at Wola Justowska, where the unit price ceilings were much higher than in other areas of Krakow. The prices recorded in Nowa Huta were at a level similar to that in Podgórze.

In 2016, the average price per m² of usable floorspace in a single-family house on the primary market amounted to PLN 4,290

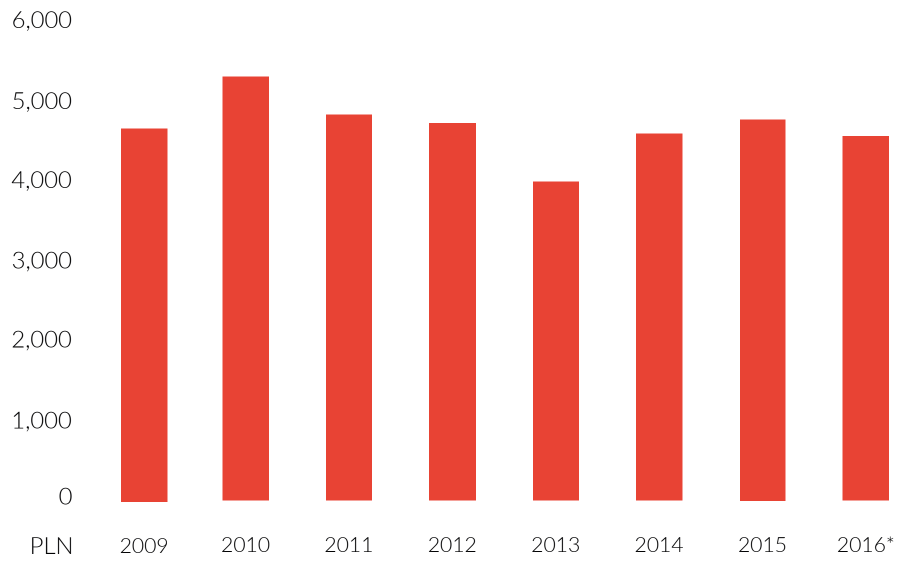


Chart 3.
Average price per m² of usable floorspace in a single-family house on the primary market (2009–2016)

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

* estimates based on incomplete data

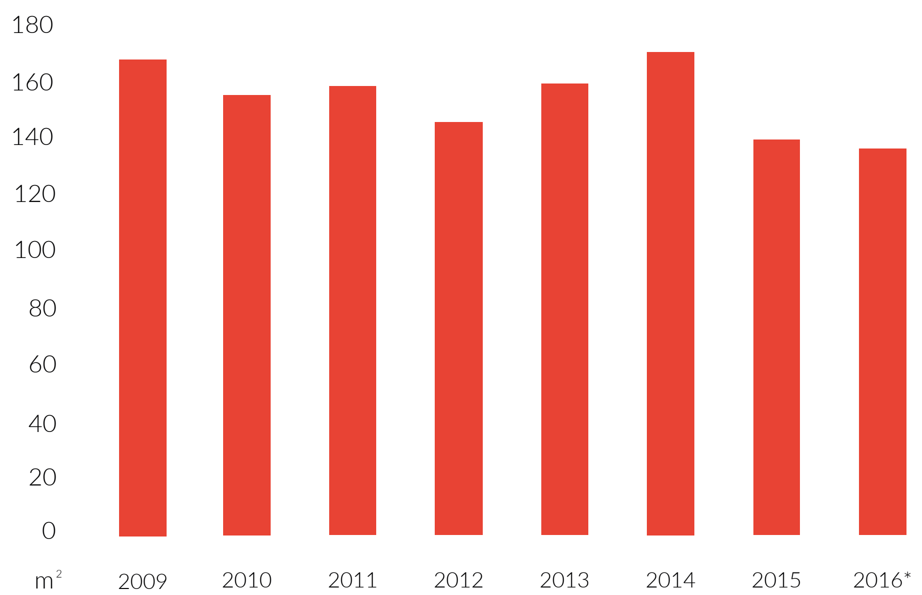


Chart 4.
Average usable floor-space of a single family house on the primary market (2009–2016)

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

* estimates based on incomplete data

SECONDARY MARKET

> The largest number of transactions in single-family houses on the secondary market was completed in Podgórze

On the secondary market of single-family houses in Krakow, last year there was a slight decrease in the number of transactions, as compared to the previous year. The fall was recorded in all areas, except for Krowodrza. Traditionally, most of the transactions were made in the former Podgórze district. The number of units sold in this district represents over 50% of the total volume of transactions. Śródmieście and Nowa Huta are of marginal importance as a result of the specific development of these districts (compact housing, multi-family housing estates).

There was also a slight decrease in total turnover. The downward trend last year reflected the general trend of the last ten years. Traditionally, competition for the market of single-family houses in Krakow is the market of suburban municipalities, with a much wider offer, especially with respect to cheap houses.

Average prices remained virtually unchanged relative to 2015. On average, it is necessary to pay up to PLN 800,000 for a house in Krakow.

There have been some changes in the areas of the old districts. In the most expensive Krowodrza, the average price increased to PLN 1.2 million. A similar trend was observed in Podgórze, where an average of PLN 650,000 was required for a house. The other two districts saw a decline. In Śródmieście, the average price was PLN 850,000 and in Nowa Huta – PLN 470,000.

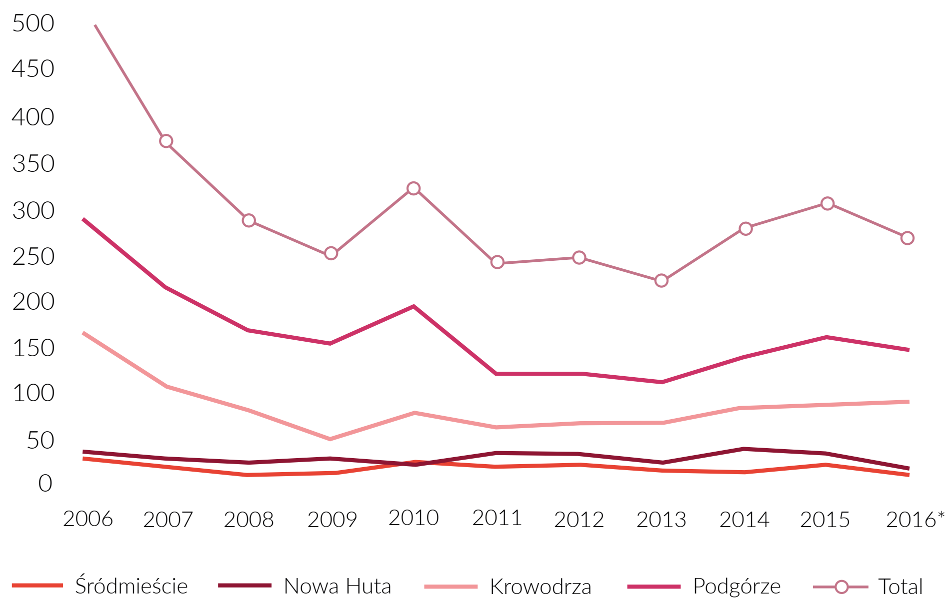


Chart 5. The number of transactions involving single-family houses in the secondary market (2006–2016)

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

* estimates based on incomplete data

> The average price for a single-family house on the secondary market amounted to PLN 800,000

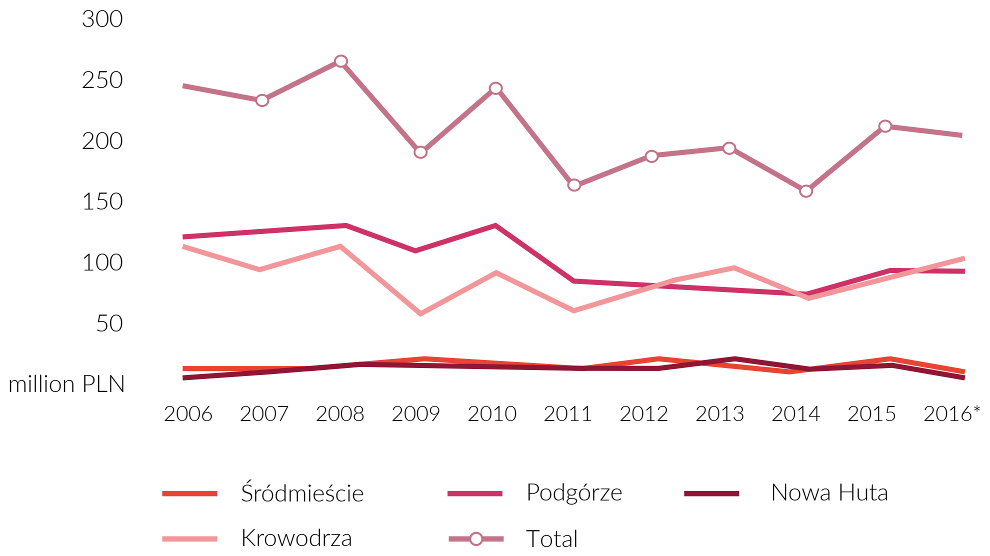


Chart 6.

Total turnover of detached houses on the secondary market (2006–2016)

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

* estimates based on incomplete data

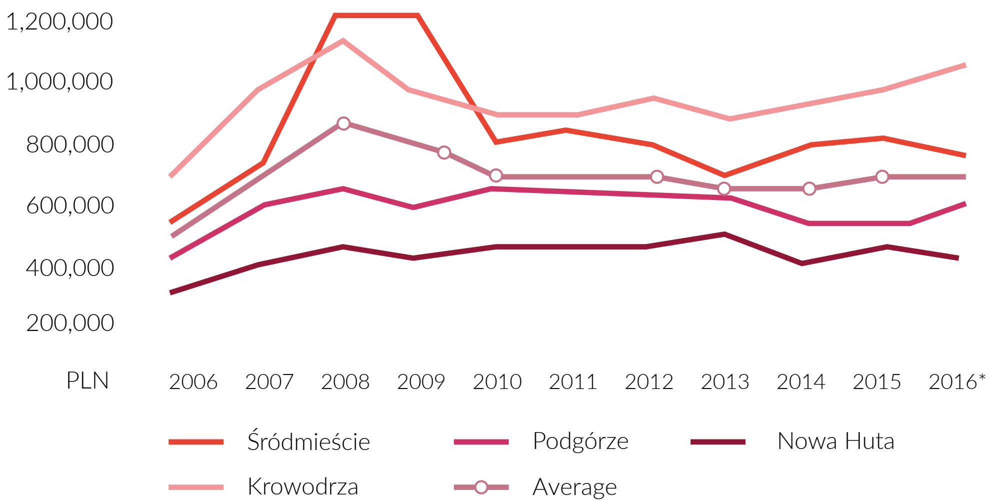
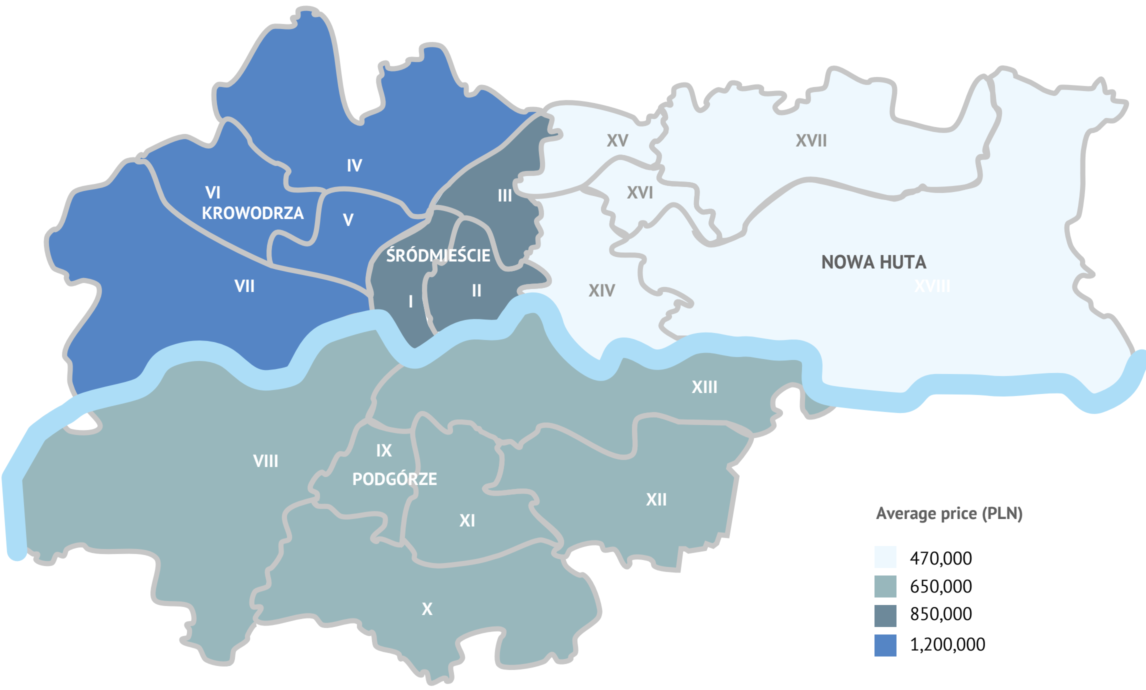


Chart 7.

Average prices for a single-family house on the secondary market (2006–2016)

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

* estimates based on incomplete data



Map 2.

Average prices for a single-family house on the secondary market in 2016

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

In 2016, the majority of transactions (over 50%) involved houses with prices in the range of PLN 250–750,000.

A distinction has been observed in the market of expensive houses: in the price range of PLN 1.25–1.5 million, located in prestigious locations. The obvious price barrier is PLN 1.75 million.

SUMMARY

In the primary market segment of single-family houses in Krakow, a slight increase in turnover and the number of transactions was observed in 2016, with a decrease in the average transaction price per house. The fall in the average unit price means that the single family market is correlated with the residential real estate market, where there was a bull market in 2016. The primary market of homes is also experiencing strong competition from single-family housing located outside Krakow. The declining average floorspace of houses is a confirmation of the need to keep the prices on offer as low as possible.

In 2016, the secondary market of single-family houses was stabilized. There were slight fluctuations in the number of transactions and total turnover, but they did not result in a breakthrough. It is a market with a limited supply and a clearly delineated barrier to demand. Expensive houses do not find many purchasers. Competition is a market of suburban municipalities, with a much richer offer of houses, especially in terms of the price range acceptable to purchasers.

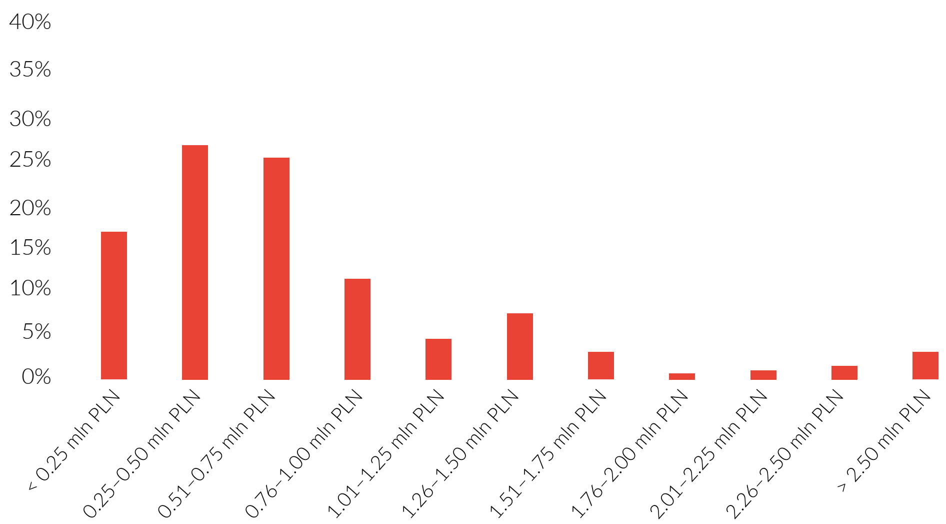


Chart 8. Share of house transactions on the secondary market by price ranges in 2016

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

LAND IN KRAKOW

In 2016, the land market in Krakow maintained the positive trends from previous years. The value of turnover and the number of transactions increased with a reasonable price rise. Capital activity was similar to that of investment land for multi-family housing in 2015, but some activity in the acquisition of land for office development was also noticeable.

Good housing sales continued to encourage developers to replenish land banks in Krakow

In 2016, land prices in Krakow increased due to the increased demand of the existing and new investors. The tendency to shift capital from bank deposits – unattractive, especially with respect to real interest rates with negative values, to the market of land and housing is evident. The rising number of well-paid employees and the overall positive image of the labour market in Krakow, together with low interest rates, are leading to a widening of the group of potential purchasers and tenants of apartments, and the number of apartments being rented is growing. Good housing sales continued to encourage developers to replenish their land banks. The influx of new businesses in Krakow was also fuelling the boom in the office segment.

The good image of Krakow and the broad job market have tempted new developers, active in other cities, which is why the turnover is growing. For example, a Wroclaw-based property developer purchased land for multi-family development to a value of almost PLN 78 million in 2016.

In Krakow, the number of transactions in the plots market increased with an increase in turnover, as compared to 2015. Preliminary data shows turnover at approx. PLN 1.35 billion, with approximately 1,350 transactions. However, it must be borne in mind that the data is preliminary and that part of the transactions have not yet been disclosed. At this phase of the land market cycle, the results came close to those achieved in 2006, when there were sales totalling PLN 1.4 billion.

Preliminary data for 2016 shows Krakow's land turnover at PLN 1.35 billion (with 1,350 transactions), which represents an increase of approximately 30%, as compared to 2015

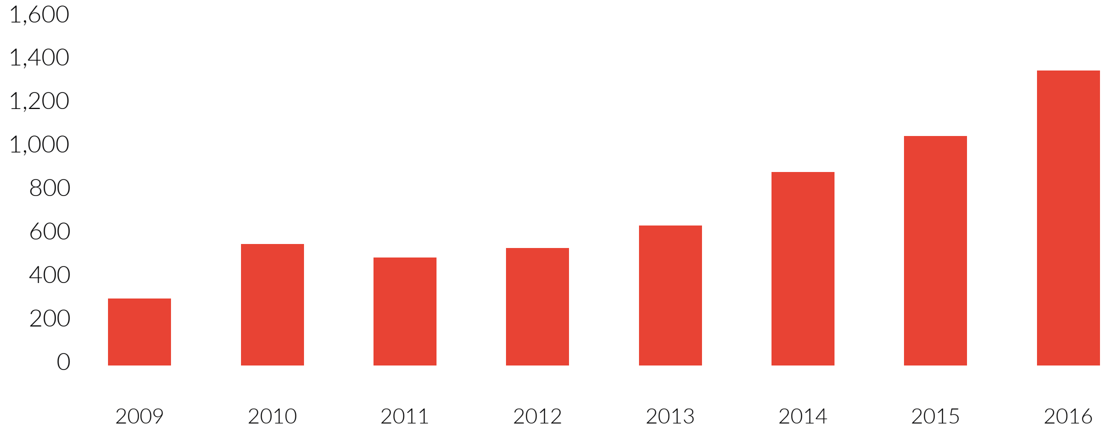


Chart 1. Turnover on the land market in Krakow* (2009–2016)

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

Year	2009	2010	2011	2012	2013	2014	2015	2016
Number of transactions	500	750	650	600	750	900	1,150	1,350

Table 1. Number of transactions on the land market in Krakow*

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

* the data does not include land purchased by the Municipality and the State Treasury for the purpose of investing in the road infrastructure and providing contributions between various entities. Preliminary estimates for the year 2016

Statistics show an increase in the unit value of transactions. There were no negative trends in the land market that were recorded in 2007 and 2008, when prices rose by several dozen per cent per year, but as noted above, the current conditions of activity are similar to those of 2006, so it is difficult to determine how the situation will change.

The average transaction price of building land in Krakow amounted to approximately 630 PLN/m²

In 2016, the average transaction price of building land in Krakow amounted to about 630 PLN/m² and was higher by approx. 5%, as compared to 2015.

Invariably, the largest share of land sales, as in previous years, falls to land plots for single-family housing. Their share in building land transactions – as in 2015 – was approx. 50%.

In terms of the value of transactions on the land market, plots for multi-family and residential and commercial housing continued to dominate, their share in land sales increased to approx. 60%. Turnover in the segment of single-family housing plots fell to 15%. Turnover in the commercial plots segment remained at approx. 25%

The land market for multi-family and residential housing and commercial development was asymmetrical in the districts in terms of the number of transactions and turnover. Investors focused – as in 2015 – on Podgórze, where almost 50% of the total turnover was recorded (respectively 30% and 25 in Krowodrza and Śródmieście). Podgórze maintained its leading position in this segment, with the stabilization of the average unit price of PLN 1,200/m². The price stabilization was evident and resulted from the large number of transactions in the cheaper areas on the outskirts, where a lower intensity of development is permitted.

Prices for a square meter of floorspace increased in comparison with 2015. In Krowodrza, the average transaction

Nearly 50% of turnover was recorded in the area of Podgórze price increased in 2016 to approx. PLN 1,500 per m² due to several large transactions with high unit prices above PLN 2,000 for 1 m² concerning building plots in Łobzów (Wrocławska, Głowackiego and Zapolskiej Streets). Similarly, in Śródmieście, the average unit price increased from PLN 2,000/m² to PLN 2,250/m². As regardssmall transactions, the unit price increased from PLN 3,200/m² to PLN 3,500/m². In Nowa Huta as well, the average transaction price increased from PLN 700/m² to PLN 800/m².

In Śródmieście, the most interesting sale of land plots for multi-family and commercial housing concerned plots in Fabryczna Street and Pokoju Avenue (Grzegórzki) – a reputable Krakow developer bought over 6 hectares of former Polmos land for almost PLN 50 million (PLN 784/m²) for mixed-use multi-family and office development. The most expensive transaction in Krakow was the sale of a plot at the junction of J. Piłsudskiego and F. Straszewskiego Streets – PLN 5.3 million (PLN 18,530/m²) was paid for a plot of 286 m².

In Podgórze, two investment plots were sold: an area of over 3.3 ha in W. Sławka Street (Wola Duchacka), for slightly over PLN 40 million (PLN 1,195 /m²) and 3.14 ha in the heavily developed Rydlówka, alongside the Wilga River, for PLN 33.2 million (PLN 1,057/m²).

In Krowodrza, in Łobzów, plots of 5.4 ha (former WSK land) were purchased in Wrocławska Street, for PLN 62 million (PLN 1,140/m²); in A. Głowackiego Street plots totalling 72 ares were bought for PLN 26 million (PLN 3,570/m²) and in G. Zapolskiej Street plots totalling 92 ares were bought for PLN 17.7 million (PLN 1,932/m²).

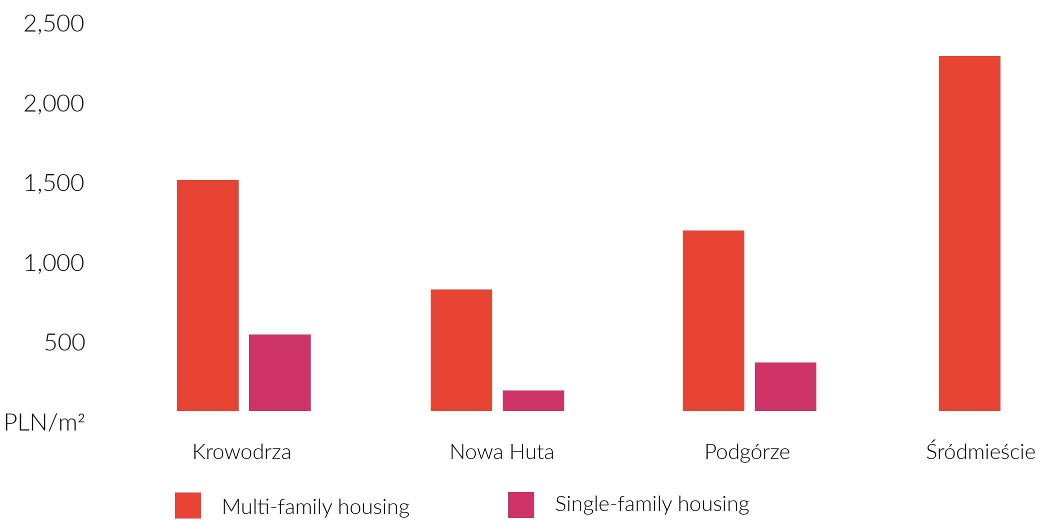


Chart 2.
Average prices of plots for multi-family and single-family development in the area of Krakow in 2016

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

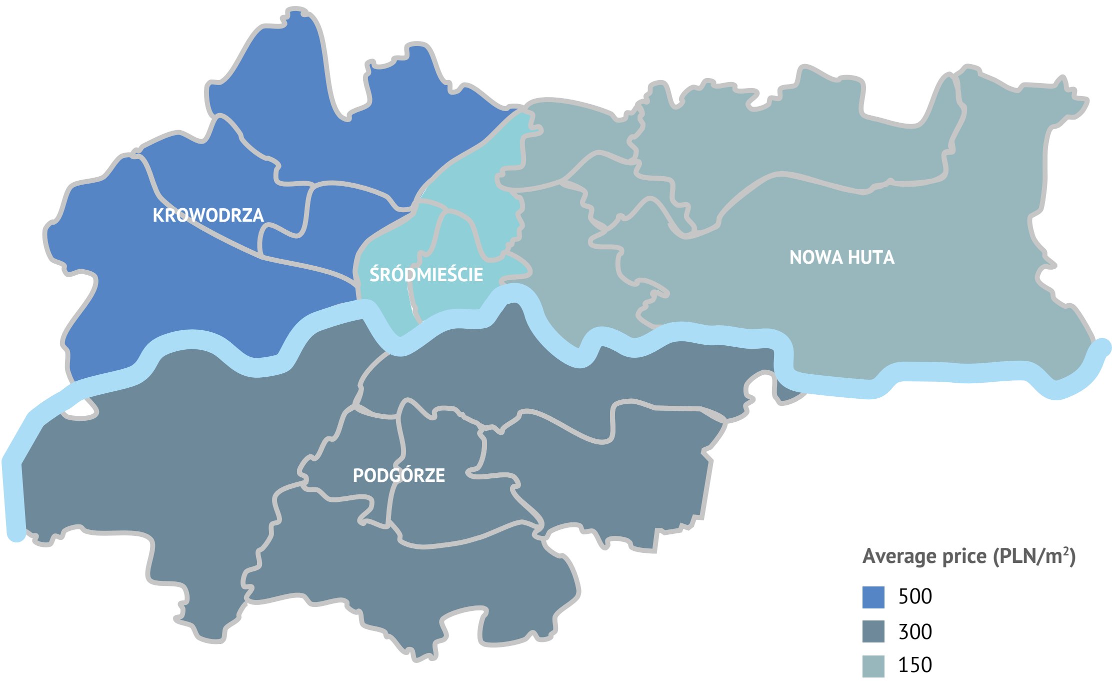
The market for single-family housing showed an increase of approx. 4–5% in comparison with 2015. This level of price increase was observed in both Krowodrza, Podgórze and Nowa Huta areas.

Very interesting was the market for commercial (land) plots, especially for office buildings, which continued the positive trend in 2014. In addition to the office development zones already recognized by investors (communication route Armii Krajowej, Wadowicka, Pokoju Avenue, Mogilskie and Grzegórzeckie Roundabouts), the market "creates" new areas for office development – they include the communication route of Monte Cassino, Kapelanka, B. Zielińskiego Streets, where the first office buildings were constructed by Skanska in 2014. In 2016, at the junction of Kapelanka and B. Zielińskiego Streets, Ghelamco purchased plots of over 40 ares for PLN 10.65 million (PLN 2,550/m2), near Twardowskiego Streets, close to the Congress Centre, a plot of approx. 30 ares was sold for PLN 7.65 million (PLN 2,660/m2). Zabłocie is a new revitalized office and residential area, where a plot of 65 ares was sold for nearly PLN 14 million (PLN 2,132/m^2) in Romanowicza Street. Zabłocie is becoming fashionable among young, wealthy residents. In Krakow, it is also possible to effectively speculate on the land market, as exemplified by the 100% rise in price within 5 months from the sale of plots of 1 ha on J. Tischnera Street bought earlier at a tender from the Municipalty (bought for PLN 6.5 million and sold for PLN 13 million). A plot of 1.17 ha in J. Tischnera Street was purchased from the Municipality by the well-known office developer BUMA for PLN 9.67 million (PLN 822/m^2).

Prices of commercial plots for commercial purposes ranged from PLN 300–2,000/m^2, and PLN 500–3,000/m^2 in the case of commercial plots for office building.

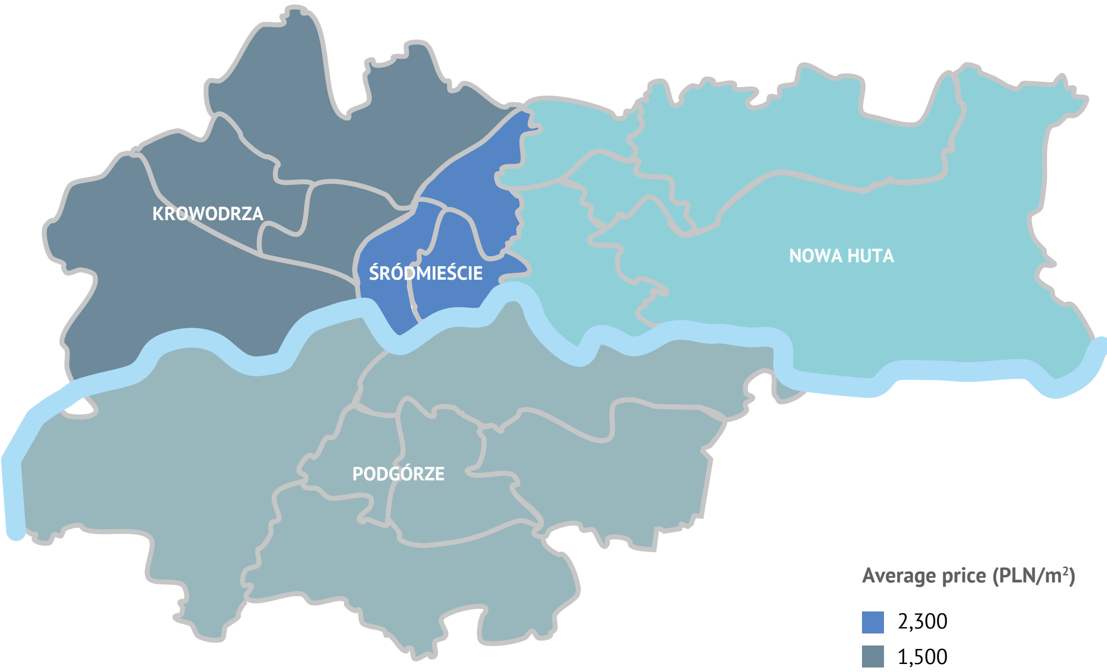
In 2016, in the segment of commercial land, the activities of investors were recorded in two peripheral areas of Krakow – at Rybitwy and along the route Ch. Botewa – T. Śliwiak Streets, where prices ranged between PLN 300–600/m^2 and in Balice-Olszanica, between the airport and the A4 motorway (there are undervalued commercial areas at the airport, which, after necessary infrastructural and road investments, will increase in value, which is increasingly being monitored by the market).

On the market of industrial and industrial-commercial plots which are generally found in Podgórze and Nowa Huta, there was stagnation with very few transactions. The price levels in the main industrial areas of these districts, i.e. Rybitwy and Łęg, were PLN 200–350/m^2 and PLN 200–300/m^2 respectively. The industrial area along Igołomska Street did not attract any interest at all.



Map 1.
Average price of land with low intensity of development in 2016

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



Map 2.
Average price of land for multi-family housing in 2016

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

SUMMARY

In general, on the land market in Krakow in 2016, the trend from 2015 continued, the volume of transactions and turnover increased. In 2016, the level was close to the level of 2006 (PLN 1.4 billion), which, according to the previous bull market on the land market, suggests a longer period of confidence in the market situation. In terms of price, the market showed growth. The market was most active in the segment of residential plots for housing-commercial and residential multi-family housing and office development. Residential and office developers were even more active than in 2015 – they purchased both expensive land in prestigious neighbourhoods (Łobzów, Dębniki, Grzegórzki, Czyżyny) and in cheaper areas closer to the outskirts (Bronowice, Wola Duchacka, Ruczaj, Płaszów, Mistrzejowice). The market fixed prices at high levels in the fashionable Zabłocie area in the residential and office development segments. New, wealthy developers appeared on the market, and Krakow developers intensively, with a keen sense of the market, supplemented their land banks.

The commercial plots segment maintained its favourable trend from 2015. There was a continuing interest in office development and new office space. The continued activities in the undervalued commercial areas on the outskirts, soon to be fully appreciated by the market with price increases (the area around the airport in Balice – Olszanica, the area around the Rybitwy node), were noticeable. The single-family plots segment showed a slight upward trend in prices by approx. 4–5%.

SINGLE-FAMILY HOUSES IN THE SUBURBAN AREAS OF KRAKOW

An analysis of real estate transactions in single-family houses in the Krakow district for 2015 shows that this segment of the market is recovering, while the available data for 2016 indicates a high number of transactions. The upward trend started in 2013, when more than 600 sales contracts were recorded, and the number of such transactions for 2015 reached its multi-annual maximum. An increase in trading volume is correlated with the increase in the number of transactions, which proves that the prices of real estate with single-family houses are stable. (Chart 1) The smaller volume of turnover in 2016, while maintaining a high number of transactions, may indicate a fall in prices in this market segment.

In the charts below, the data from 2016 was estimated due to the fact that not all the data from poviats was available.

Trend lines generated for a wide timeframe in the Krakow district indicate stabilization in 2016 after the growth in 2013–2015.

The data from the area of the Wieliczka poviat is even more optimistic. The upward trend that began in 2014 was also maintained in 2016. The number of transactions has increased every year since 2014, reaching its multi-annual maximum and, for the first time in 2016, significantly exceeding 400 transactions a year. (Chart 2)

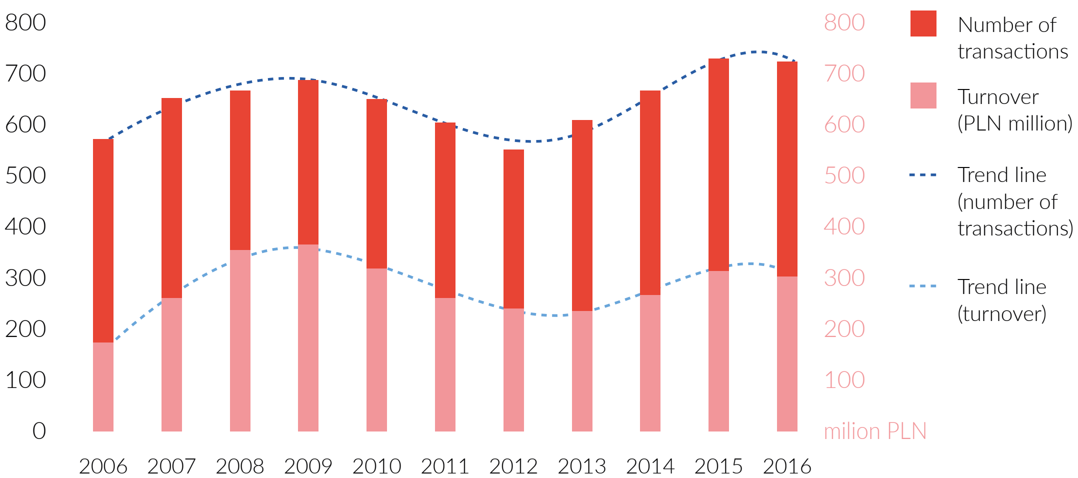


Chart 1. Number of transactions and turnover of houses in the poviat of Krakow (2006–2016)

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

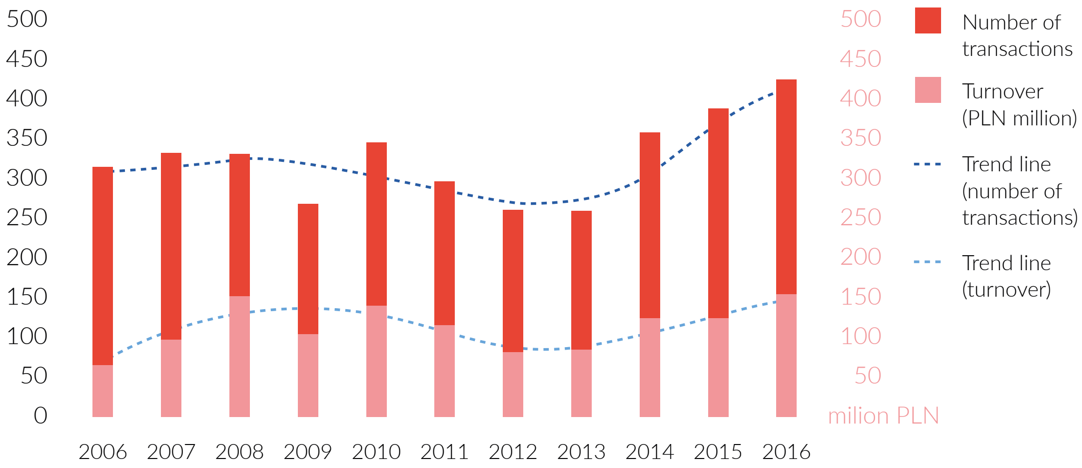


Chart 2.

Number of transactions and turnover of houses in the poviat of Wieliczka (2006–2016)

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

Stabilization of the trading volume in 2015 proves a decline in prices, but 2016 shows an increase in both the number of transactions and the volume of turnover. This significant increase of the trend line for the Wieliczka poviat is an optimistic signal for the future, which allows us to expect further development of the analysed market segment.

Traditionally, in 2016, the largest number of transactions concerning single-family houses was recorded in the municipalities of Zielonki and Zabierzów, while the market showed a slight revival in the municipality of Czernichów and decreased activity in Mogilany was surprising. Just like in the previous year, the municipality of Zielonki, located on the northern boundary of Krakow, is the leader. Certainly, the popularity of this municipality is determined by its relatively close location to the centre of Krakow, and the factor to some extent hampering the development of the municipality is the lack of a northern bypass of the city. The maximum values on the volume chart correspond to the maximum values for the number of transactions. In 2016, the highest transaction price was recorded in one of the villages of the municipalty of Wielka Wieś, where a residence with a swimming pool on a large plot of land was sold for PLN 3.7 million. (Chart 3)

In the Wieliczka poviat, traditionally, the most active areas were the city and municipality of Wieliczka, but last year a lot of purchase agreements were signed in Niepołomice, which witnessed a record number of transactions throughout the poviat. (Chart 4) The most expensive transaction in 2016 was the purchase of a single-family house with fittings and fixtures on a nearly 15 acre plot in the north of Wieliczka – the transaction amounted to PLN 1.25 million.

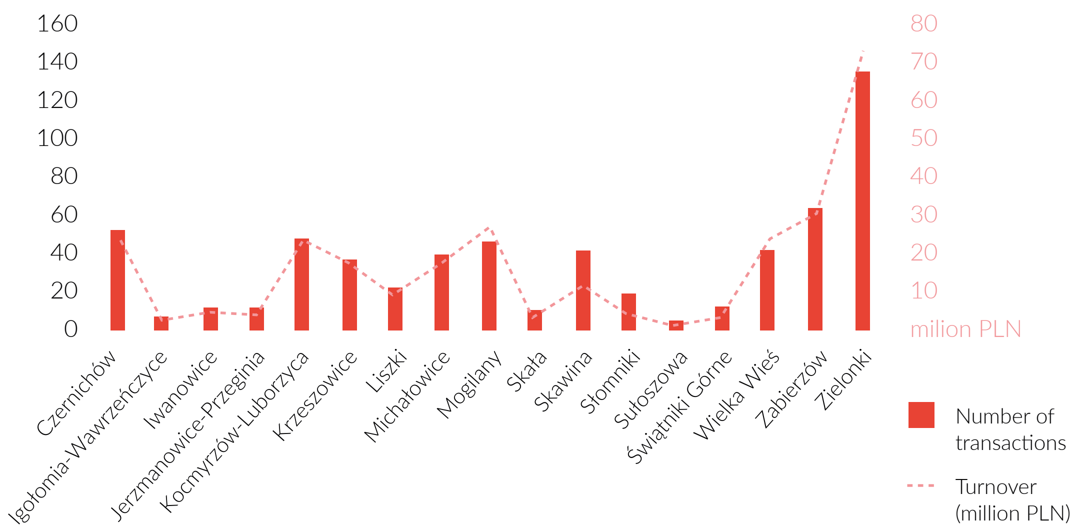


Chart 3.

Number of transactions and turnover of houses in the municipalities in the poviat of Krakow in 2016

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

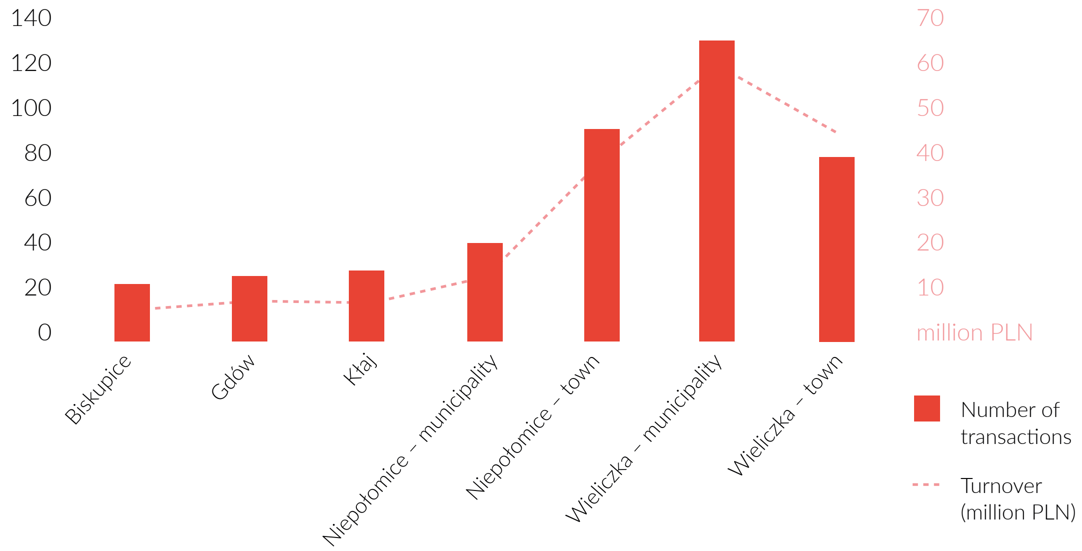


Chart 4.
Number of transactions and turnover of houses in the municipalities in the poviat of Wieliczka in 2016

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

Historical analysis of the average transactional prices for real estate in the poviat of Krakow shows that the situation varies in different municipalities. The signal from the municipality of Krzeszowice is clear, although unfortunately negative. The decrease in average prices there has been uninterrupted since 2011, which should be regarded as a permanent, unfavourable phenomenon. In other municipalities, growth periods are intertwined with years of decline. A three-year period of average increase for the purchase of a single-family house was observed in the municipalities of Zielonki, Wielka Wieś, Liszki and Iwanowice. In these municipalities – except the municipality of Zielonki – in 2016, the average transaction price reached its maximum. (Chart 5)

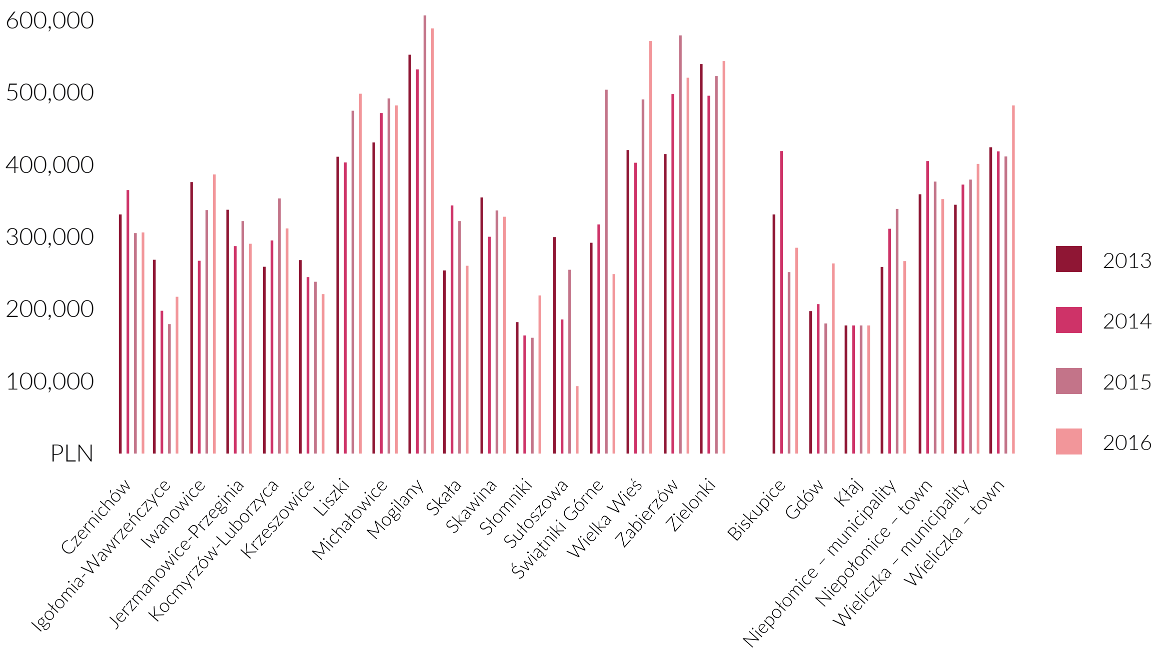


Chart 5.
Average transaction price for a house in the municipalities in the Krakow and Wieliczka poviats (2013–2016)

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

The data available for 2016 and the updated data for 2015 confirm the upward trend in the city and municipality of Wieliczka and a revival in the municipalities of Biskupice and Gdów. Virtually no change in the average price in the municipality of Kłaj for years is an unusual phenomenon. (Chart 5)

PRIMARY MARKET

The activity of developers has been growing since 2012, which proves a stable, developed market. On the other hand, the increase in the number of transactions involving natural persons, as has been observed since 2011, is expected to slow down in 2016, but it will be compensated by transactions in the primary market. (Chart 6)

The number of real estate transactions in 2016 proves that this segment of the market is recovering (after a slowdown in 2015), which translates into an increase in the Wieliczka poviat market. The activity of natural persons is still high. (Chart 7)

In the poviat of Wieliczka, the developers were most active primarily in the municipalities of Niepołomice and Wieliczka. New investments were recorded in the municipality of Gdów. In 2016, developers did not invest in Kłaj and Biskupice.

An analysis of prices for 1 m^2 of building usable floorspace in development transactions shows, as in previous years, that municipalities with a large number of them record a significant difference between the maximum and minimum prices, depending on the stage of the work in the building being sold. (Chart 8)

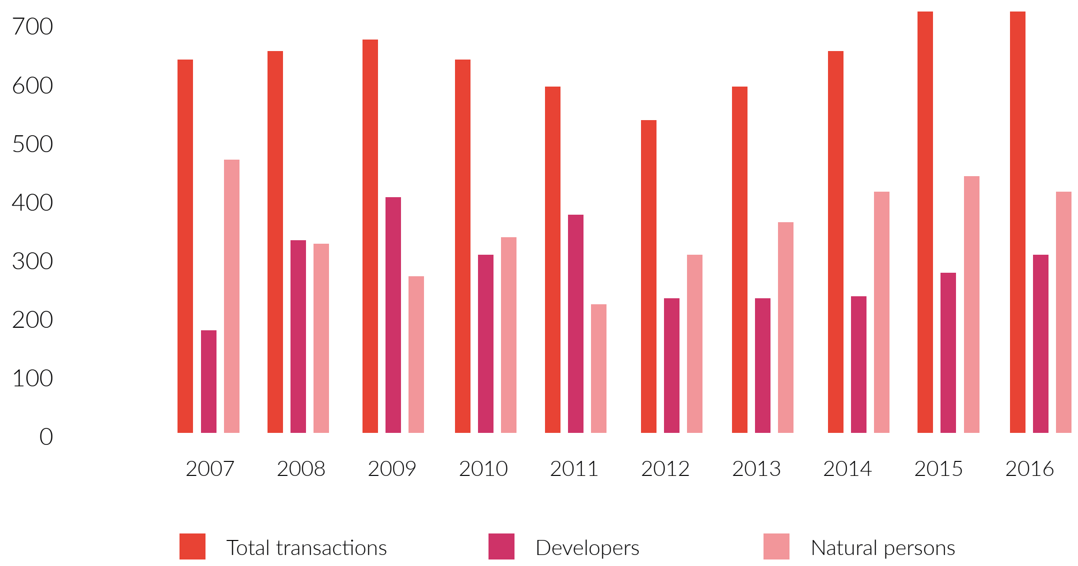


Chart 6. Number of transactions conducted by developers and individuals in the poviat of Krakow (2007–2016)

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

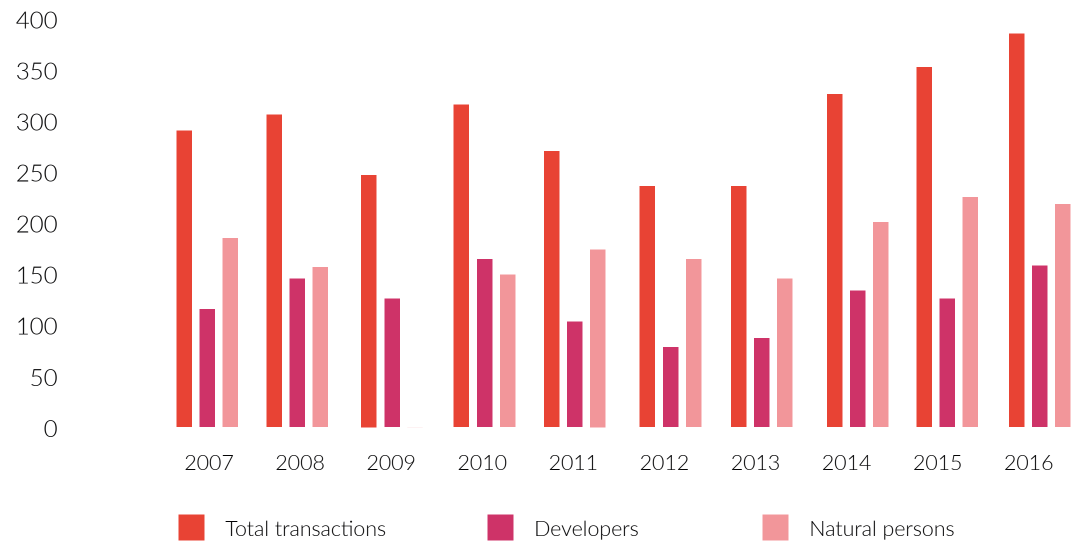


Chart 7. Number of transactions conducted by developers and individuals in the poviat of Wieliczka (2007–2016)

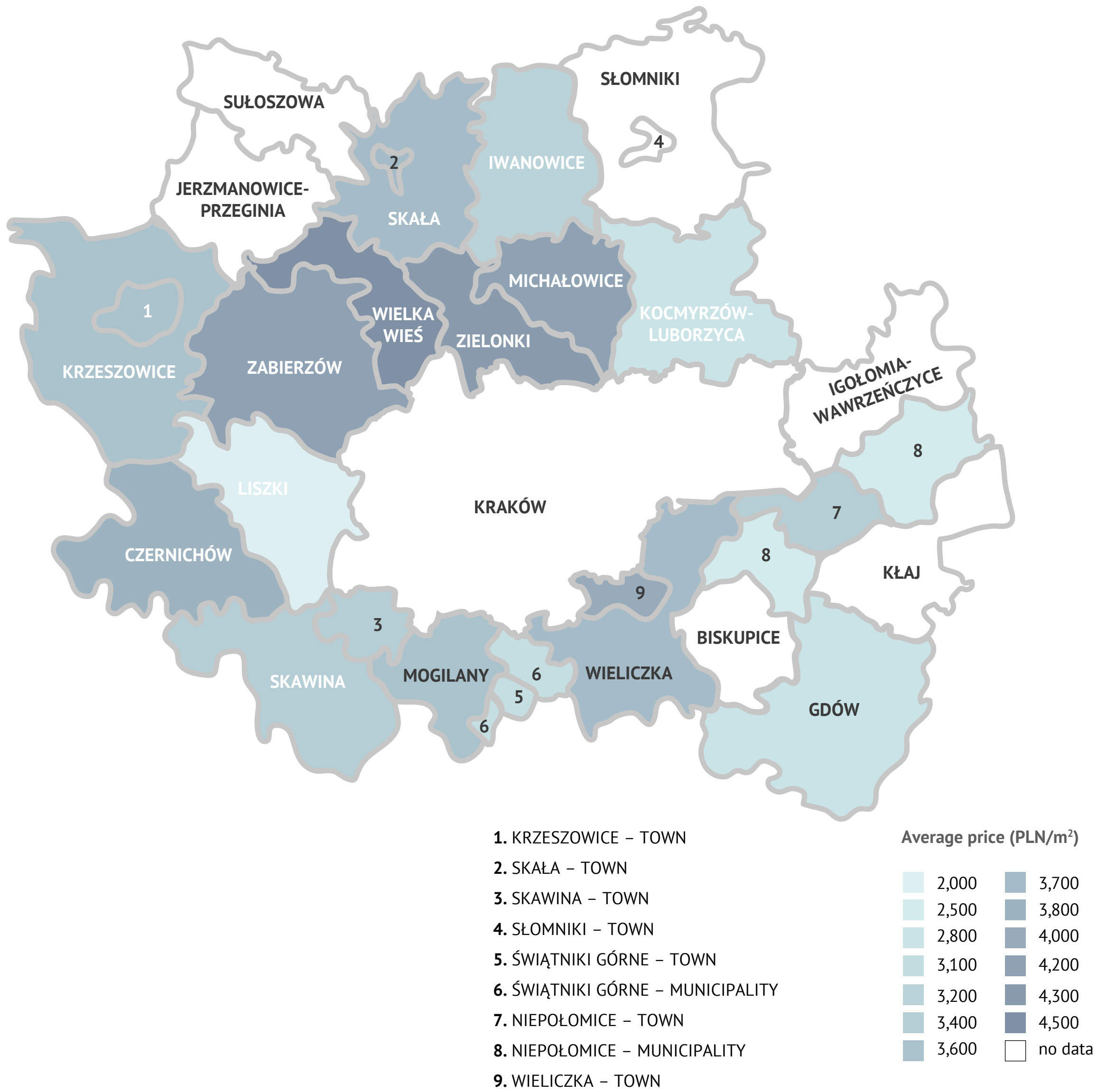
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Chart 8.

Minimum, average and maximum prices per m^2 of a house in the municipalities in the Krakow and Wieliczka poviats in real estate transactions* in 2016

Source: Institute of Real Estate Market Monitor Analysis mrn.pll

* no bars indicate no developer transactions in the municipality



Map 1.

Prices of single-family houses on the primary market in the municipalities in the Krakow and Wieliczka poviats in 2016

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

Map 2. Prices of single-family houses on the secondary market in the municipalities in the Krakow and Wieliczka poviats in 2016

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

1. KRZESZOWICE – TOWN
2. SKAŁA – TOWN
3. SKAWINA – TOWN
4. SŁOMNIKI – TOWN
5. ŚWIĄTNIKI GÓRNE – TOWN
6. ŚWIĄTNIKI GÓRNE – MUNICIPALITY
7. NIEPOŁOMICE – TOWN
8. NIEPOŁOMICE – MUNICIPALITY
9. WIELICZKA – TOWN

Average price (PLN/m^2)

97,000–221,000
221,001–252,000
252,001–265,000
265,001–249,000
249,001–328,000
328,001–401,000
401,001–499,000
499,001–542,000
542,001–588,000

SUMMARY

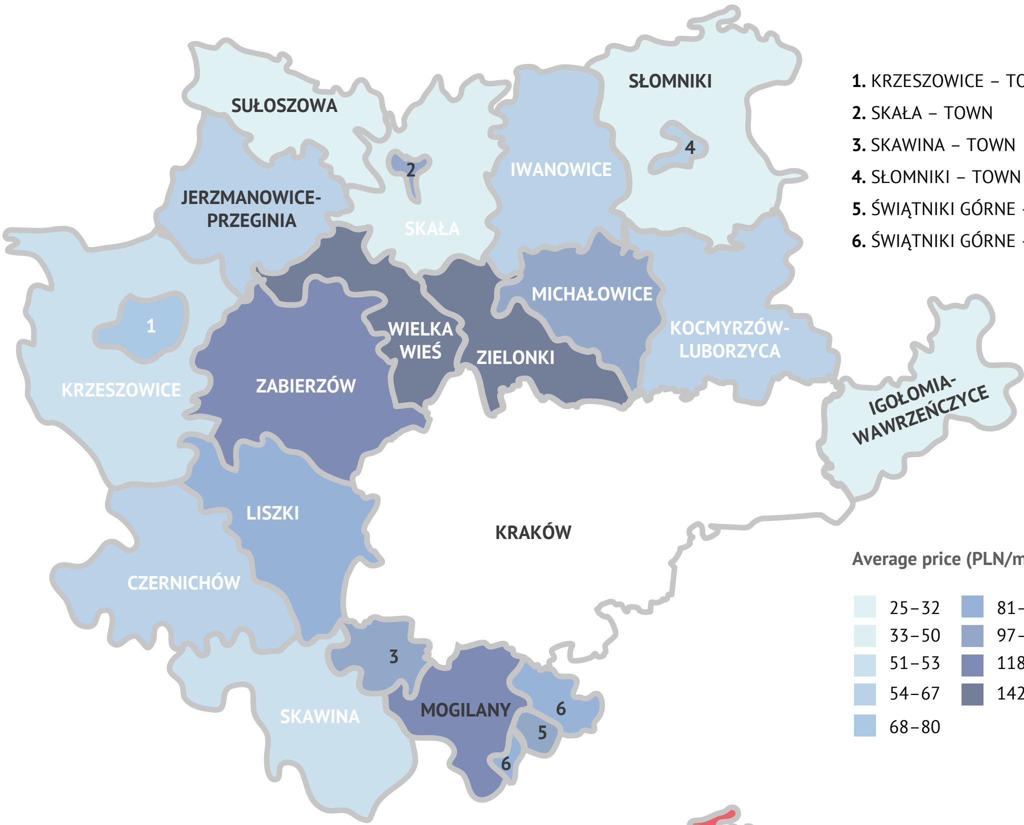
2016 should be assessed as very good on the market of single-family houses in the poviat of Krakow, especially Wieliczka, where a significant revival was observed.

In the municipalities with the largest number of transactions, prices have risen, especially in the Wieliczka poviat. Long-term analysis of data in the municipalities indicates a high price volatility in individual years, both on the primary and secondary markets, but the global trend in both of the analysed poviats is growing.

There is still a lot of interest in cheaper real estate located further outside Krakow's borders. Purchasers also buy property with houses ready for demolition or general renovation, on large plots.

The data available for 2016 confirms positive signals from the market.

LAND MARKET OF THE POVIAT OF KRAKOW



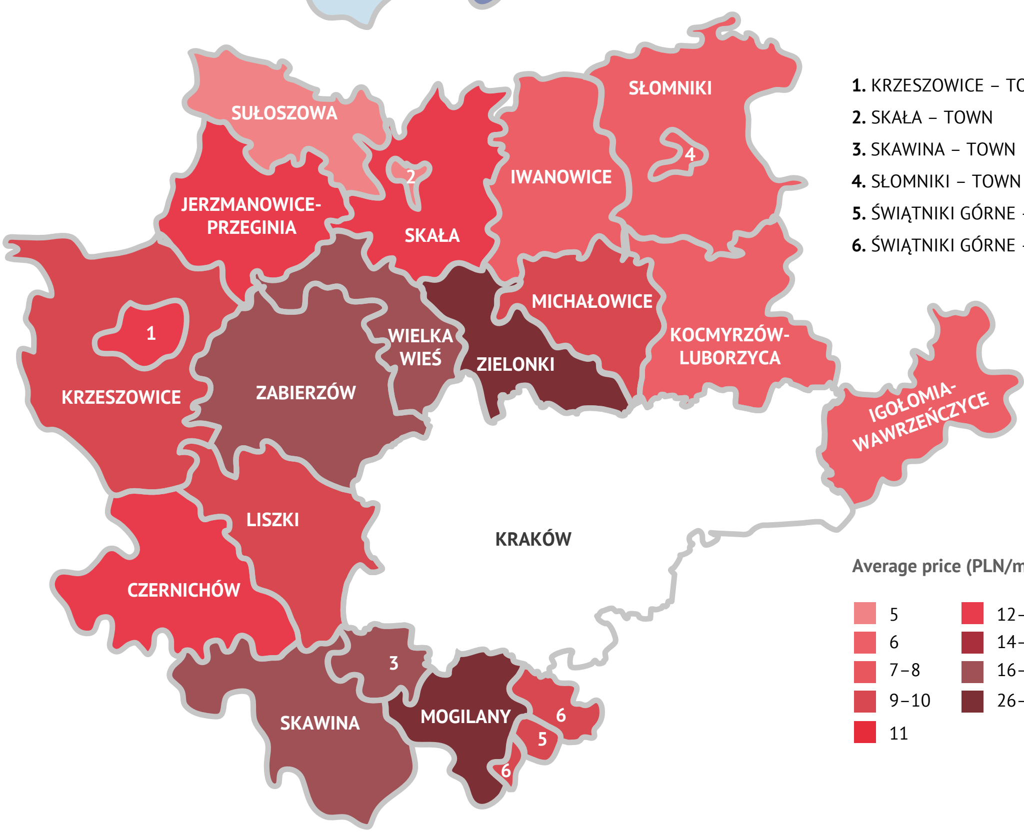
1. KRZESZOWICE – TOWN
2. SKAŁA – TOWN
3. SKAWINA – TOWN
4. SŁOMNIKI – TOWN
5. ŚWIĄTNIKI GÓRNE – TOWN
6. ŚWIĄTNIKI GÓRNE – MUNICIPAL

Average price (PLN/m²)

25–32
33–50
51–53
54–67
68–80
81–96
97–117
118–141
142–167

Map 1.
Prices of land for construction

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



1. KRZESZOWICE – TOWN
2. SKAŁA – TOWN
3. SKAWINA – TOWN
4. SŁOMNIKI – TOWN
5. ŚWIĄTNIKI GÓRNE – TOWN
6. ŚWIĄTNIKI GÓRNE – MUNICIPAL

Average price (PLN/m²)

5
6
7–8
9–10
11
12–13
14–15
16–25
26–41

Map 2.
Prices of agricultural land

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

Based on the transaction data from the first three quarters of 2016, nothing seems to have changed in comparison with previous years. 2016 saw another boom in the construction market, and the land market extended the price stabilization started in 2010. (Maps 1 and 2)

Several zloty fluctuations of average unit prices are typical of the real estate market and do not signal a break in the current market situation. Such a state of affairs is also visible in individual communities of the analysed region. (Chart 2)

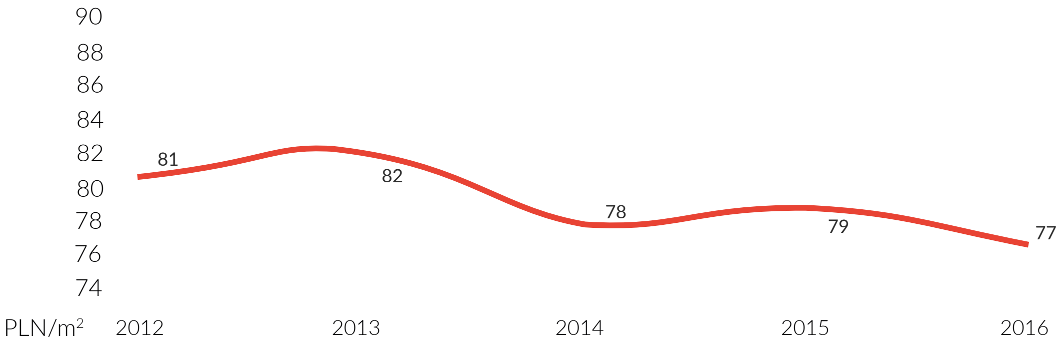


Chart 1.

Average unit prices of land in the poviat of Krakow (2012–2016)

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

Chart 2.

Average unit price of land in the municipalities in the poviat of Krakow (2012–2016)

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

Invariably, for the past few years, the most, over 60% of total transactions, were recorded on the land market for residential development. The second is the agricultural land sector. Other destinations constitute a six-percent complement to the construction and agricultural market. (Chart 3)

More than 60% of the total transactions are recorded on the residential land market

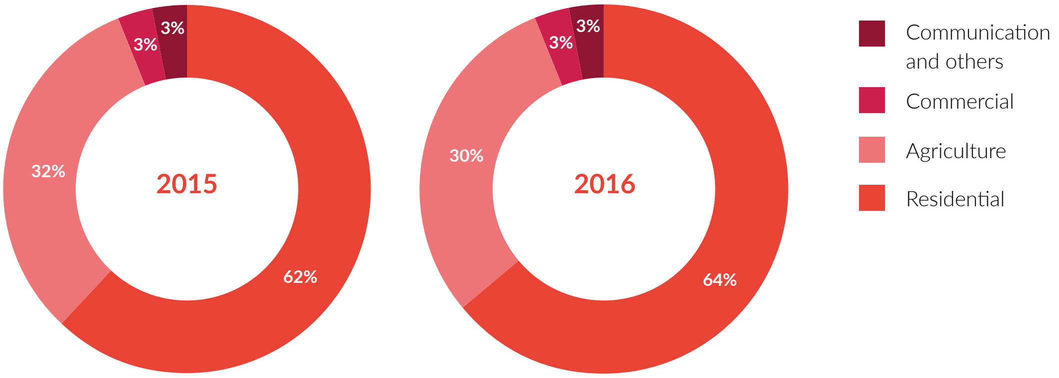


Chart 3.

Transaction structure by land allocation (2015–2016)

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

It is worth pointing out here the two-percent decrease in the number of transactions in the agricultural land sector for the construction land sector in 2016. The effects of the April 14, 2016 Land Act on the Suspension of the sale of agricultural land of the Treasury and the amendment of certain acts are not yet evident in the fall in the prices for agricultural land (Charts 4 and 5), however, its introduction has significantly reduced the number of transactions in the analysed market sector. (Chart 6)

The introduction of the Land Act on the Suspension of the sale of agricultural land of the Treasury limited the number of transactions in agricultural land

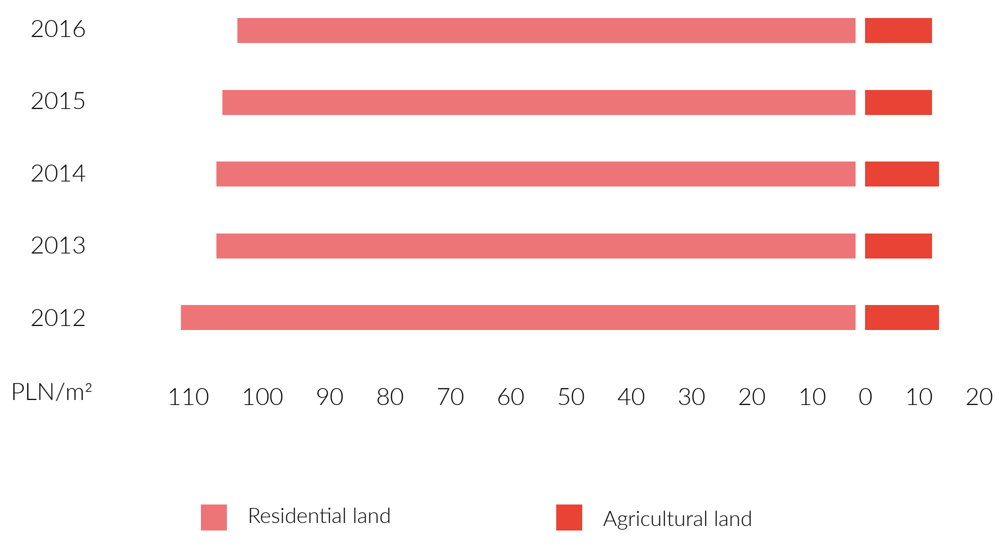


Chart 4.
Average unit prices of agricultural and construction land in the poviat of Krakow (2012–2016)

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

Chart 5.
Average unit prices of agricultural land in the municipalities in the poviat of Krakow (2012–2016)

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

Chart 6.
Number and value of transactions of agricultural land in the poviat of Krakow (2014–2016)

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

The decline in the number of agricultural land transactions in the third quarter of 2016 proves a strong correlation between the real estate market and the state's policy and is predicting a recession in this sector.

Unlike the agricultural market, the residential land market maintained both the value and the quantum of transactions from previous years. (Charts 7 and 8)

SUMMARY

- The land market of the poviat of Krakow recorded a decrease in the number of transactions in the second half of 2016, mainly in the agricultural land sector.
- The agricultural land market strongly correlates with the state policy. An economic climate change in this sector is forecasted.
- The April 14, 2016 Land Act on the Suspension of the sale of agricultural land of the Treasury and the amendment of certain acts are a turning point in the current economic cycle and the announcement of a recession on the agricultural land market.
- The value of land allocated for residential development is maintained at the level of the past years.
- The residential property market is in the boom phase.

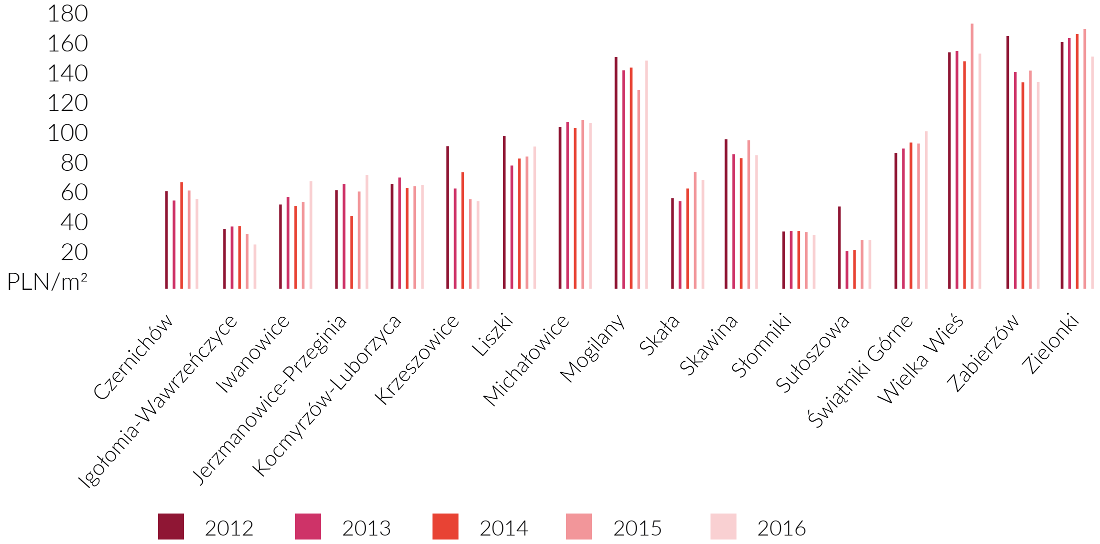


Chart 7.

Average unit prices for building land in the municipalities in the poviat of Krakow (2012–2016)

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

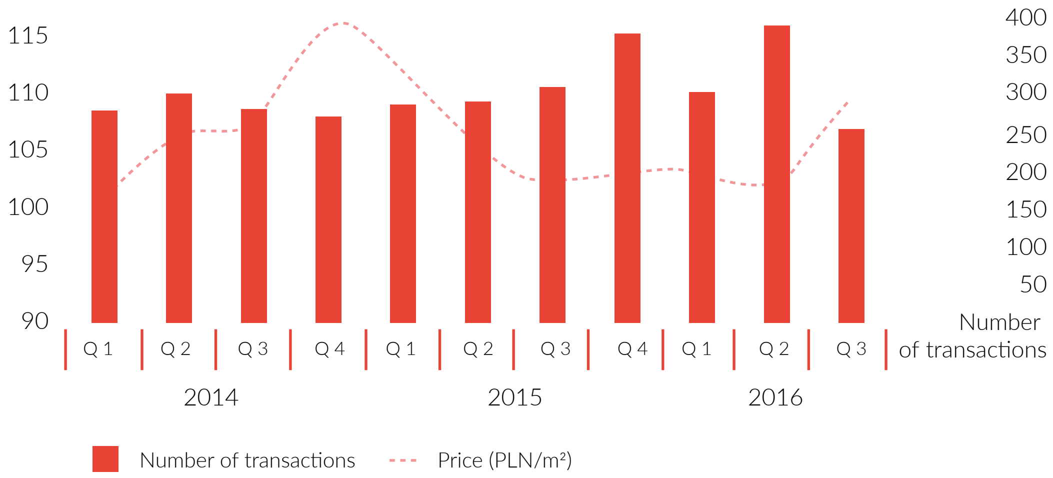


Chart 8.

Number and value of transactions of building land in the poviat of Krakow (2014–2016)

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

The Municipality of Krakow
City Development Department
pl. Wszystkich Św. 3-4, 31-004 Krakow
Tel. +48 12 616 15 48
e-mail: wr.umk@um.krakow.pl

www.krakow.pl

PARTNERZY

Knight Frank

PARTNERZY MEDIALNI

WWW.KRAKÓW.PL

DWUTYGODNIK MIEJSKI KRAKÓW.PL