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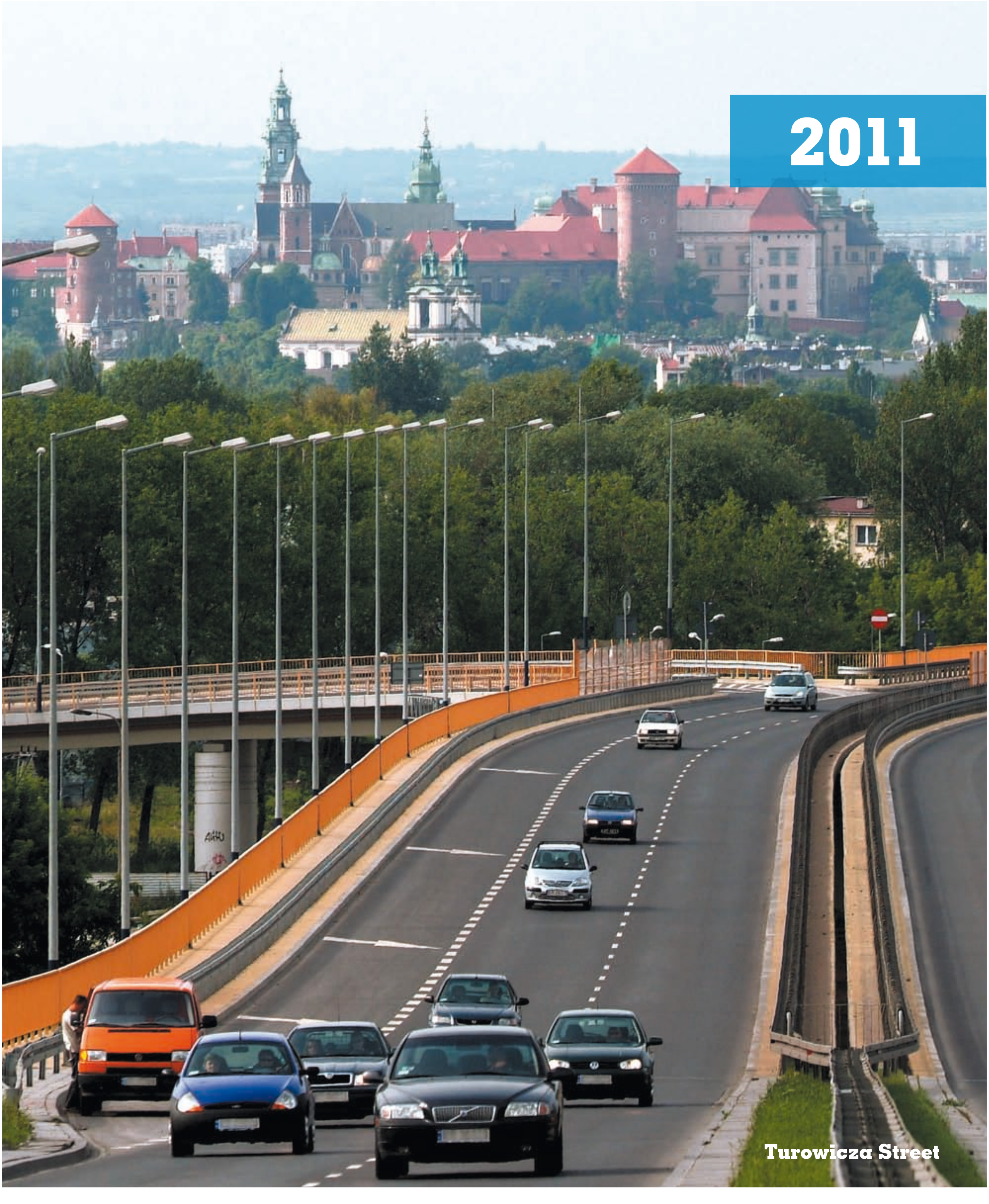
PRICES

Prices in the report are quoted in PLN or EUR, depending on the transaction; often one of the currencies is referred to as the basis for defining the value.
Average currency exchange rates are published every day on the website of the National Bank of Poland (www.nbp.pl)

MEASURES

Used in Poland: 1 ar =100 sqm = 0.01 hectare (ha)
1 hectare = 10 000 sqm = 100 ars (ar)
Used in English speaking countries:
1 acre (UK) = 40.47 ars (ar) = 0.40 hectare (ha)



Krakow Real Estate Market

III Housing market

Grzegórzecka Street

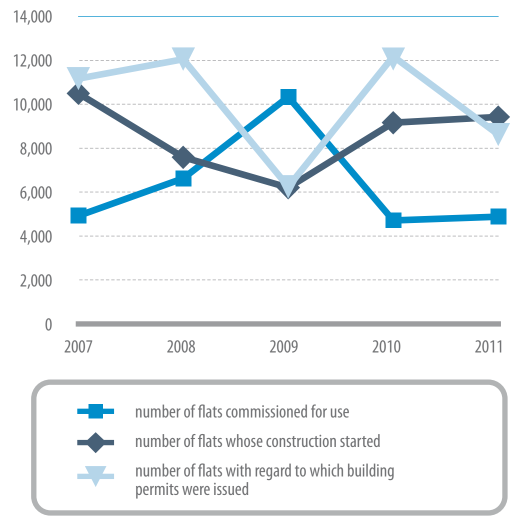
Primary Housing Market

III.1

According to preliminary data from the Statistical Office in Krakow, in 2011 in the city of Krakow, 4,882 flats were commissioned for use (a rise by 3.5% in relation to 2010), construction of 9,423 flats started (a rise by 2.9%) and building permits were issued for the construction of 8,620 flats (a drop by more than 29%).

Chart III.1-1.

Number of flats commissioned for use, flats with regard to which building permits were issued and flats whose construction started in Krakow in the years 2007-2011



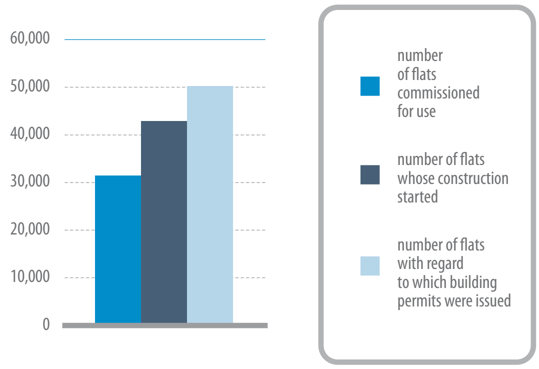
Source: Prepared on the basis of data from the Statistical Office in Krakow

The above data indicates that in 2011, the situation in Krakow with regard to the number of completed flats and started construction works was similar to that in 2010, and the changes did not exceed 4%. However, the 2011 result greatly differs from the average for the previous four years. In 2011, 1,768 fewer flats were commissioned for use than on average in the years 2007-2010, while construction started with regard to 1,063 flats was more than the average value for that period.

The graphic illustration of housing indicators for the last five years is very interesting. In the breakthrough year of 2009, there was noted a record number of flats commissioned for use and the lowest indicator of started construction works and issued building permits. In 2011, the number of flats commissioned for use was close to the figure from 2007, while the permit and started construction indicators became similar; but in both cases, the year 2011 closed at lower levels than four years earlier.

Chart III.1-2.

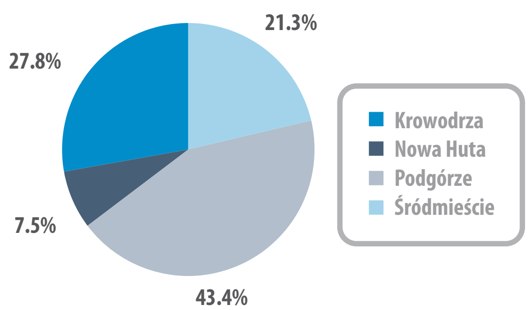
Number of flats commissioned for use, flats with regard to which building permits were issued and flats whose construction started in Krakow, sum for the years 2007-2011



Source: Prepared on the basis of data from the Statistical Office in Krakow

Chart III.1-3.

Distribution of housing investments in Krakow



Source: Dominium.pl

In the past five years in Krakow, building permits were issued for the construction of more than 50,000 flats; at the same time, construction works started with regard to nearly 43,000 flats, and nearly 31,500 flats were commissioned for use. In the last two years (2010-2011), building permits for 20,800 flats were issued, construction works started with regard to 18,581 flats and 9,598 flats were commissioned for use.

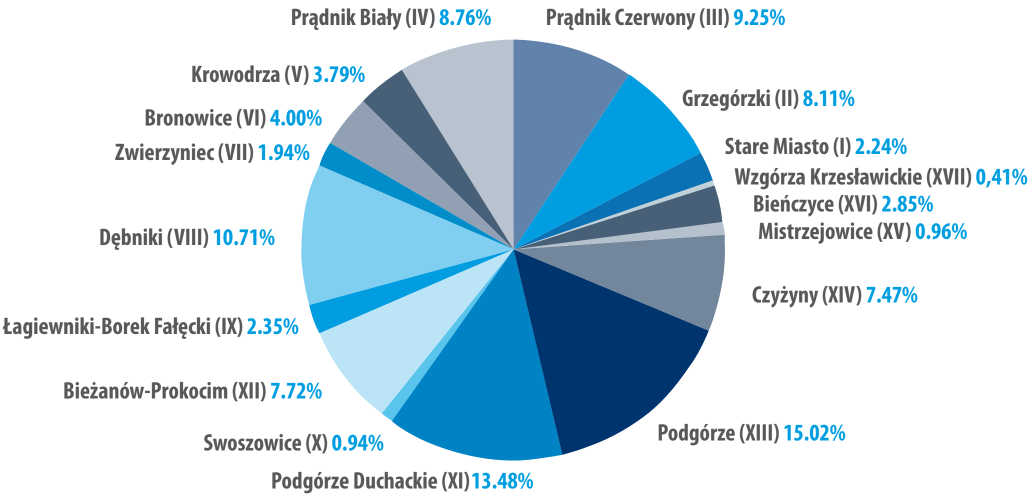
At the end of December 2011, there were about 9,000 flats offered in Krakow. According to the data of the Dominium.pl portal, the number of investments understood as individual buildings where flats were sold reached almost 350. About 43% of the investments were located in Podgórze. More than 50% of all the flats were offered in investments in the Podgórze area. Nearly 28% of the investments were situated in Krowodrza. This was home to more than 18% of the flats offered on the primary market. A similar number of flats, i.e. over 19% of all flats, were located in Śródmieście. The investments in this area accounted for slightly more than 21% of all investments. Percentage-wise, the lowest share in the primary market offer belonged to Nowa Huta, where more than 7% of investments and nearly 12% of flats were located.

Among Krakow districts, the greatest number of flats (more than 15% of all flats) was offered in Podgórze (XIII). Second place belonged to Podgórze Duchackie (XI) with approx. 13.5%. Relatively high supply, ranging from 7% to 10% of the overall offer, was noted in the districts of Grzegórzki (II), Prądnik Czerwony (III), Prądnik Biały (IV), Dębniki (VIII) and Czyżyny (XIV). The eight above-mentioned districts housed a total of over 80% of flats offered on the primary market. At the end of 2011, no housing investment was offered in Nowa Huta (XVIII), while in the previous year, only 1 investment was executed in this district. The offer in other Nowa Huta districts, such as Mistrzejowice (XV) and Wzgórza Krzesławickie (XVII) and the southern-most city district of Swoszowice (X), was not much higher. In every one of these districts, the developers' proposals accounted for less than 1% of the market offer.

In comparison to December 2010, the number of investments offering flats rose by about 60. In relation to the analogous period in 2010, the number of new flats available on the primary

Chart III.1-4.

Distribution of flats by districts



Source: Dominium.pl

market was, in turn, higher by more than 3,500. Such a considerable rise in the offer was possible thanks to the large number of decisions about building permits issued in the years 2010-2011.

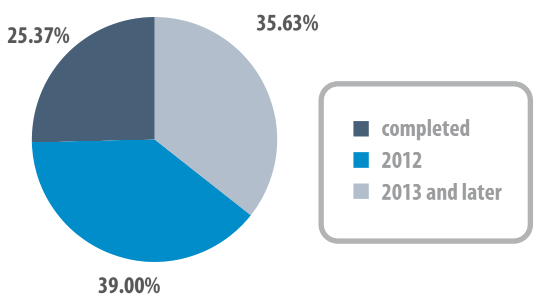
At the end of December 2011, about 25% of all offered flats (more than 2,000) was ready for acceptance. Nearly 40% of flats were scheduled to be completed in 2012, and the execution dates of slightly more than 35% of the flats were planned for 2013 or later. A year earlier, the number of flats ready for acceptance was at a similar level, but due to the smaller overall market offer, they accounted for nearly 40% of the supply structure.

A third of all ready flats in Krakow were offered in Krowodrza, more than 46% in Podgórze, 18% in Śródmieście and less than 2% in Nowa Huta.

In Krowodrza alone, the percentage of flats ready for acceptance accounted for nearly 42% of the entire offer. In the Nowa Huta area, it was possible to move into the flat immediately after buying only in the case of 4% of offered flats. The situation was similar in two remaining areas of the city: in Podgórze and Śródmieście, about 23% and 26% of flats, respectively, awaited buyers despite the completion of investment execution.

Chart III.1-5.

Structure of flats in the primary market offer in Krakow by dates of execution



Source: Dominium.pl

Table III.1-1.

Structure of flats in the primary market offer by dates of execution and areas (%)

Date of execution	Krowodrza	Nowa Huta	Podgórze	Śródmieście
Ready	33.83	1.87	46.12	18.18
2012	19.55	13.85	48.58	18.02
2013	12.06	15.40	56.01	16.53

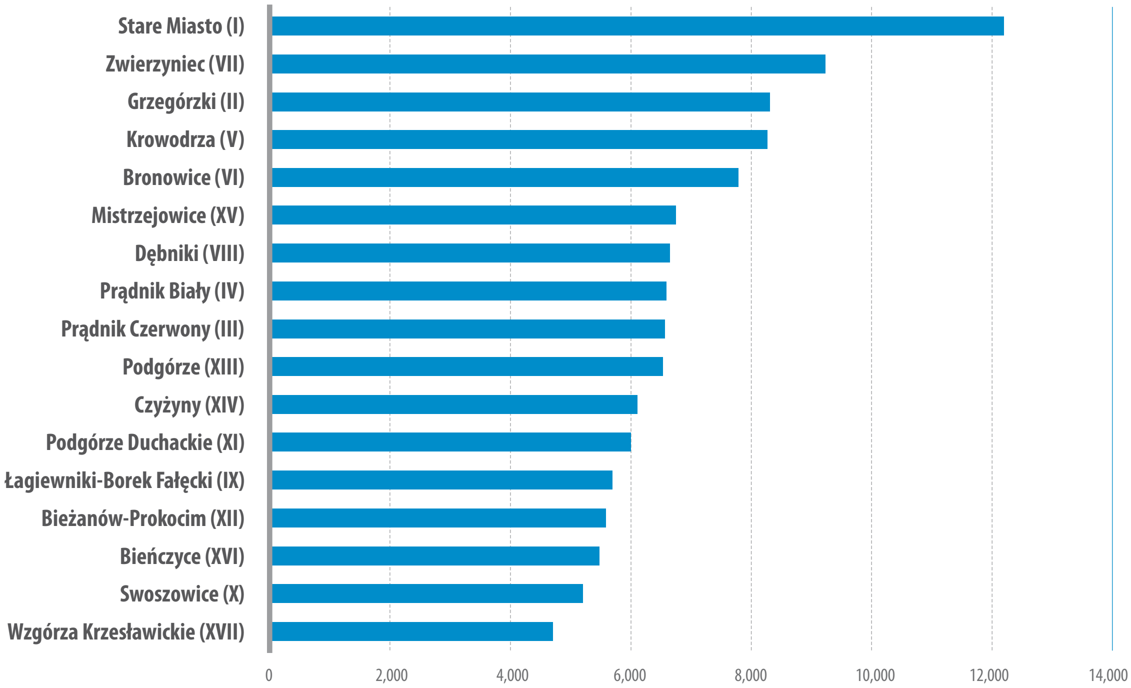
Source: Dominium.pl

Buyers planning to accept a flat in 2012 had the greatest choice of offers (nearly half) in Podgórze (this refers to the market offer at the end of December 2011). Flats from other areas accounted for nearly 14%, 18% and 19% of offers (Nowa Huta, Śródmieście and Krowodrza, respectively).

According to the data from the Dominium.pl portal, at the end of December 2011, average prices of new flats in the Krakow districts ranged from PLN 4,710 to PLN 12,200/m^2. Traditionally, the most expensive district (the only one where the average price exceeded PLN 10,000/m^2) was Stare Miasto (I). On the other hand, the district with average prices below PLN 5,000/m^2 was Wzgórza Krzesławickie (XVII). One could pay an average price up to PLN 6,000/m^2 in Bieńczyce (XVI) and four districts from the Podgórze area: Swoszowice (X), Bieżanów-Prokocim (XII), Łagiewniki-Borek Fałęcki (IX) and Podgórze Duchackie (XI). The sphere of average prices ranging from PLN 6,000 to PLN 8,000/m^2 included seven more districts: Czyżyny (XIV), Podgórze (XIII), Prądnik Czerwony (III), Prądnik Biały (IV), Dębniki (VIII), Mistrzejowice (XV) and Bronowice (VI). The small group of districts where buyers were offered flats at an average price

Chart III.1-6.

Average prices of new flats (PLN/m^2)



Source: Dominium.pl

Table III.1-2.

Changes in average prices of new flats in the Krakow districts

	XII 2010	XII 2011	Change XII 2011/ XII 2010
	(PLN/m²)		(%)
Stare Miasto (I)	14,130	12,200	-13.66
Grzegórzki (II)	8,110	8,310	2.47
Prądnik Czerwony (III)	6,630	6,570	-0.9
Prądnik Biały (IV)	6,690	6,591	-1.48
Krowodrza (V)	8,950	8,270	-7.6
Bronowice (VI)	8,320	7,790	-6.37
Zwierzyniec (VII)	10,650	9,230	-13.33
Dębniki (VIII)	6,560	6,650	1.37
Łagiewniki-Borek Fałęcki (IX)	6,110	5,690	-6.87
Swoszowice (X)	5,120	5,200	1.56
Podgórze Duchackie (XI)	6,720	6,000	-10.71
Bieżanów--Prokocim (XII)	5,610	5,580	-0.53
Podgórze (XIII)	7,610	6,533	-14.15
Czyżyny (XIV)	6,280	6,110	-2.71
Mistrzejowice (XV)	6,820	6,750	-1.03
Bieńczyce (XVI)	5,700	5,480	-3.86
Wzgórza Krzesławickie (XVII)	4,750	4,710	-0.84
Nowa Huta (XVIII)	4,750	-	-

Source: Dominium.pl

of PLN 8,000-10,000/m² encompassed only the two Krowodrza districts of Zwierzyniec (VII) and Krowodrza (V), and one Śródmieście district of Grzegórzki (II).
Obviously, the average price provides only a simplified picture of the market, and in every district one could find offers where the prices varied considerably from the average. This was conditioned by such factors as location, building's situation, standard, transportation system and the developer's reputation.
High supply of flats, buyers waiting for price cuts and unfavourable legal regulations related to mortgage loans and the "Rodzina na Swoim" ("Family in Their Own Home") Programme resulted in a considerable slowdown in sales in the second half of 2011. This is why the investors were willing to reduce prices in the course of direct negotiations and to offer bonuses in the forms of furnishing elements, parking space or convenient payment conditions. The transaction price could also depend on the payment schedule selected by the buyer, and more favourable price conditions could be found in the case of less attractive flats (e.g. larger surface area, location on a low ground floor, unfavourable proportion between the passage and residential surface area in the flat). For these reasons, the set average offer prices for individual districts should be treated as demonstrative only.
At the end of 2011, the average price per 1 m² for all Krakow districts amounted to approx. PLN 6,920.
The year 2011 brought an adjustment of average prices in almost all city districts. Only in Grzegórzki (II), Dębniki (VIII) and Swoszowice (X) were the average prices slightly higher than in the previous year. However, this rise did not result from the increase of prices in individual investments, but from the emergence of new offers in the more expensive parts of these districts.
Slight drops in average prices were noted in the districts of Prądnik Czerwony (III), Prądnik Biały (IV), Czyżyny (XIV), Mistrzejowice (XV), as well as Bieżanów-Prokocim (XII), Bieńczyce (XVI) and Wzgórza Krzesławickie (XVII). In these districts, price adjustments could also be noted in earlier periods. In addition, the first group of the above-mentioned districts – due to convenient transportation links with the city centre and the relatively attractive level of prices – enjoyed great interest among buyers, so the developers

were less willing to reduce prices in these areas. The other three districts belong to the group of cheaper locations, so reductions were also limited here, because of the need to retain the investments' profitability.

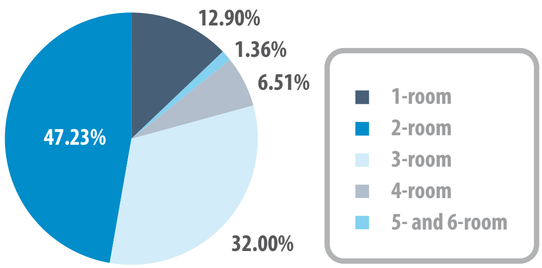
Higher cuts in prices, reaching up to a dozen or so per cent, took place in the more expensive districts, such as Stare Miasto (I), Zwierzyniec (VII), Bronowice (VI) and Podgórze (XIII). In these districts, many apartment investments characterised by higher standard are executed. In a year when people talked about the impending crisis and the possible reductions of flat prices, the willingness to invest in such real estate properties was limited. The second cause for higher cuts in prices in certain districts was the emergence of a large supply of new investments that frequently offered lower prices. Such situation took place, for example, in Krowodrza (V), Podgórze Duchackie (XI) and Podgórze (XIII). A large supply of offers in similar locations induced investors to reduce the prices and launch promotions.

The structure of new flats offered on the primary market in Krakow in December 2011 was dominated by 2-room flats, which accounted for nearly half of all offers. Second place belonged to 3-room flats at a level of 32%.

Every second flat offered fit the surface area range of 41-60 m². Nearly one fifth of flats had

Chart III.1-7.

Structure of flats by the number of rooms

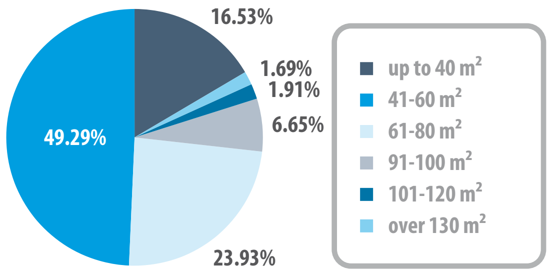


Source: Dominium.pl

a surface area from 61 to 80 m². Smaller flats up to 40 m² constituted about 16.5% of the offers.

Chart III.1-8.

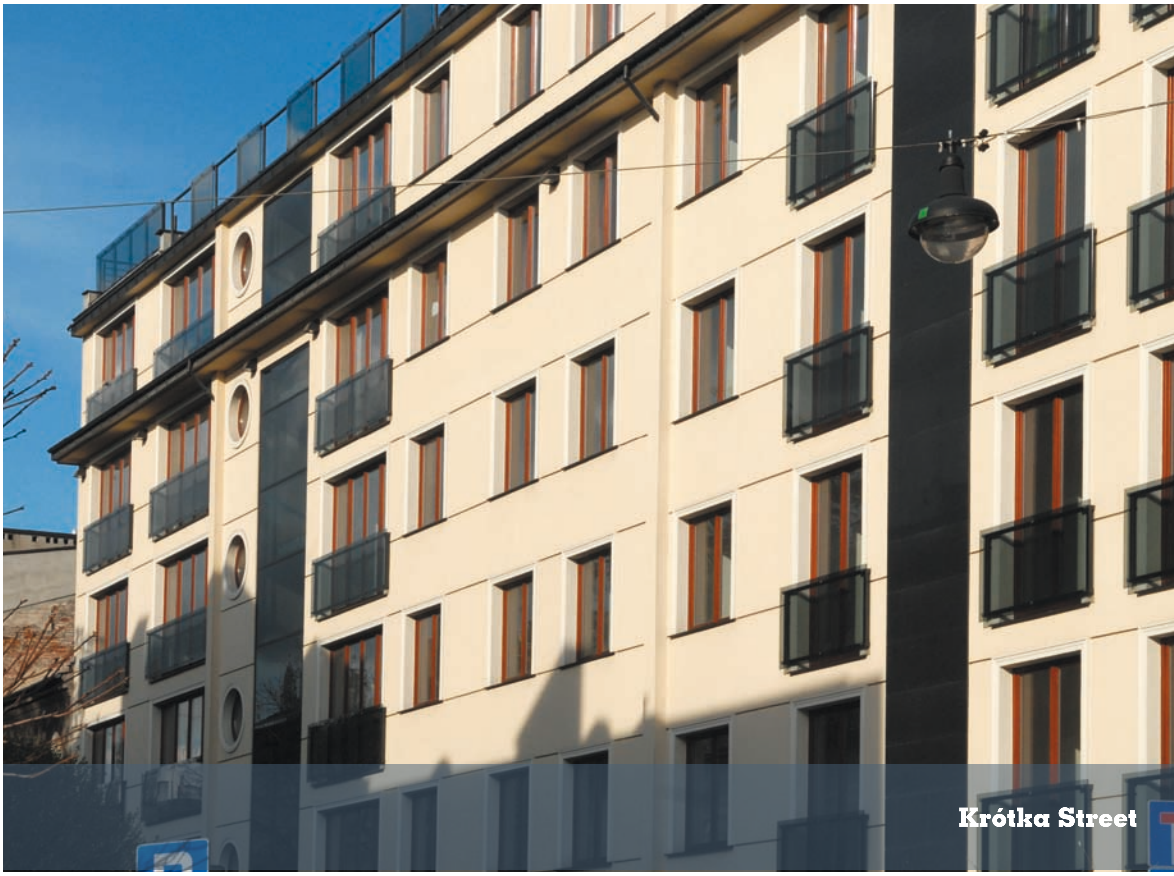
Structure of flats by surface area m² metres



Source: Dominium.pl

Summary

- In 2011, the number of issued building permits dropped in relation to the previous year. This was caused by a market situation characterised by a high supply of flats and concern for the weakening of prosperity in the next few years.
- A high supply of new projects in the second half of the year resulted, to a large extent, from the intention of locating the investment on the market before the enforcement of the developer law.
- More than half of the supply of new flats was concentrated in Podgórze, whereas the supply in Śródmieście and Krowodrza was at a similar level. Thanks to the growing number of investments in the Czyżyny district, Nowa Huta also started to catch up with the other districts in terms of the number of offers.
- A considerable majority of Krakow flats was constructed in the area of the eight districts that are most popular among investors. The



Krótka Street

least popular districts were situated in the eastern part of Nowa Huta.

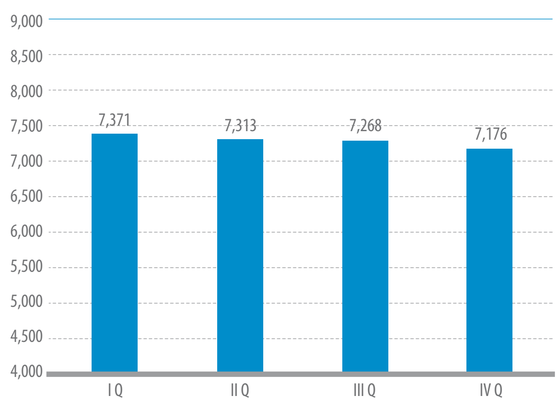
- At the end of 2011, there was a high supply of ready flats on the market. Such offers constituted ¼ of all flats offered in December 2011. A considerable part of ready flats belonged to the segment of less attractive offers due to high price, large surface area or worse location. The greatest number of ready flats was offered in Krowodrza, whereas the smallest was in Nowa Huta.
- The average prices of 1 m^2 in individual districts became more similar over the course of subsequent months in 2011. At the end of the year, the average price in the most expensive district was 2.5-times higher than the average price in the cheapest district. In 2011, adjustments of prices in Krakow could be noted at various rates depending on the part of the city. But still in half of the districts, the changes in averages prices fit within the range of +/- 3%.
- The structure of offered flats was dominated by 2-room flats with a surface area of 40-60 m^2.

III.2 Secondary housing market

III.2.1. SECONDARY HOUSING MARKET – OFFER PRICES

Chart III.2.1-1.

Prices of 1 m² of flats on the secondary market in 2011 (PLN)



Source: Krajowy Rynek Nieruchomości – krn.pl

The analysis of prices of Krakow flats in 2011 points to a continuing downwards tendency. In subsequent quarters, reductions of flat prices were noted in comparison to the preceding quarters. The difference between the 1st and 4th quarter of 2011 amounted to PLN 195. Finally, at the end of the year, in the 4th quarter, one had to pay an average sum of PLN 7,176 for 1 m² of a flat in Krakow. Thus, 2011 is the third year in a row where we could note reductions on the real estate market in Krakow. While comparing data from 2010 and 2011, one can observe that the drop in offer prices deepened. In the previous year, the price reduction between the 1st and 4th quarter amounted to 1.7%. In 2011, this drop reached a level of 2.5%. The decreasing price of 1 m² reflects the condition of the Polish real estate market, including the clients' financial abilities. The majority of entities dealing with real estate market services considered the year 2011 as very hard.

Problems on the real estate market resulted directly from the difficult situation on the financial markets. The uncertain situation on the currency and credit markets caused a suppression of demand on the part of clients. A lower level of demand translated directly to a lower turnover in the real estate market and the reduction of income of companies dealing with transaction services. A drop in the number of transactions affected both agencies selling flats on the sec-

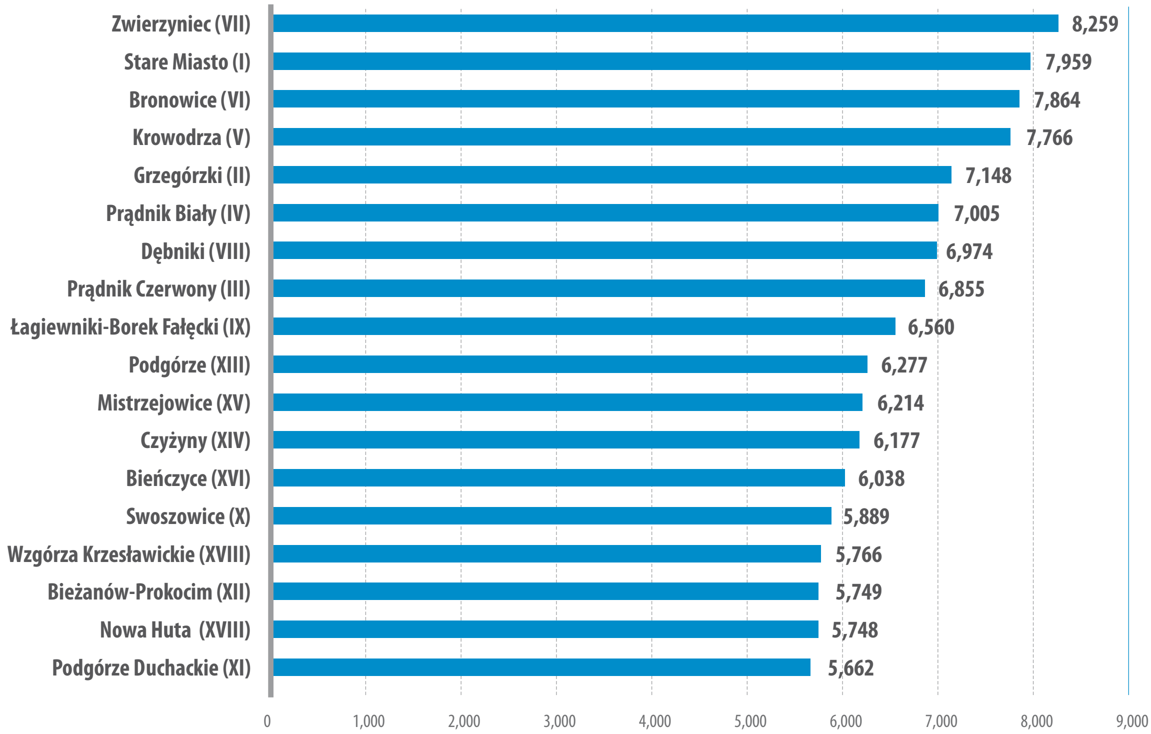
KRN.pl
Krajowy Rynek Nieruchomości

ondary market and developers operating on the primary market. The change of dynamic on the real estate market stemmed mainly from the prolonged period of waiting for a client. On the other hand, limited demand possibilities forced sellers to further reduce prices. What is more, the forecasts for 2012 do not show more optimism. Such a situation on the real estate market will probably continue in the coming months. According to banks' announcements, a restrictive credit policy will be maintained. The changes primarily concern the principles of calculation of clients' credit capacity. Although the banks currently apply criteria that are stricter than those in the previous years, in 2012 further requirements for potential borrowers will appear. The banks shall consider the client's income together with its change in the event of retirement. The credit capacity will be calculated for the period of 25 years. So one cannot count on a rise of effective demand on the secondary market. In KRN.pl's survey, conducted at the beginning of 2012 among the portal's users, respondents were asked to assess the year 2011 in comparison to the previous year in the context of the situation on the real estate market. The survey's findings clearly point to a pessimistic attitude among the participants towards the real estate market: the two most popular answers are "considerable" and "moderate worsening". The total of nearly 70% respondents claimed that the situation on the real estate market in Poland had been much worse than in the previous year.

In order to assess the actual state of offer prices, the survey was conducted in the districts. In comparison to the previous year, one can observe

Chart III.2.1-2.

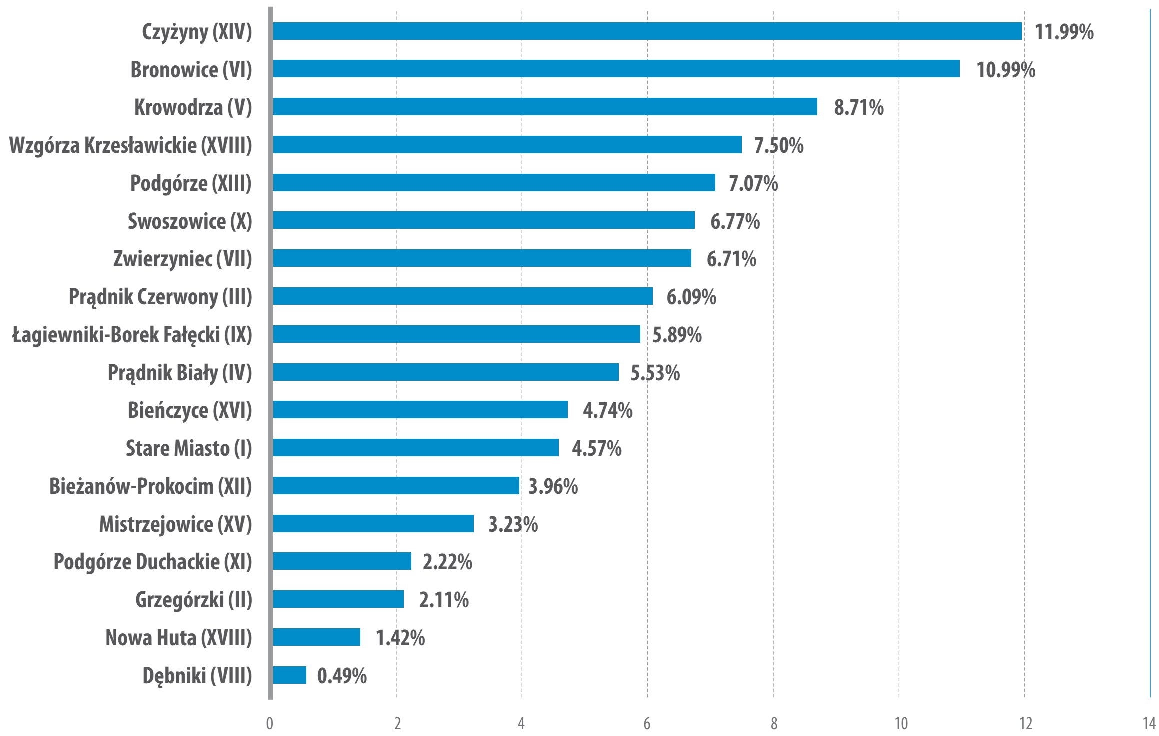
Price of 1 m^2 in the Krakow districts in 2011 (PLN)



Source: Krajowy Rynek Nieruchomości – krn.pl

Chart III.2.1-3.

Structure of supply of sales offers in 2011 (%)



Source: Krajowy Rynek Nieruchomości – krn.pl

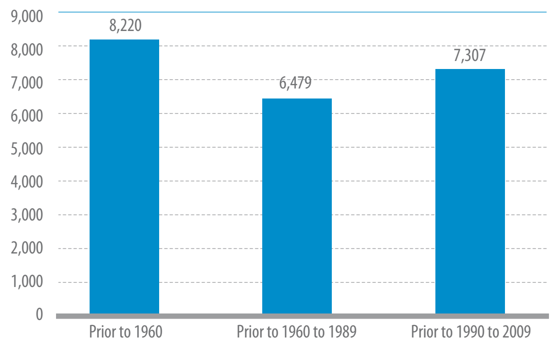
drops of prices in practically all areas of Krakow. In comparison to 2010, the price disproportion between specific districts also decreased. Although the districts' positions in the price ranking practically did not change, the distance between the most expensive and the cheapest district clearly decreased. The highest prices of residential premises in Krakow were noted in the area of Zwierzyniec (PLN 8,259/m²) and Stare Miasto (PLN 7,959/m²). Furthermore, the most expensive districts of Krakow were Bronowice (PLN 7,864/m²) and Krowodrza (PLN 7,766/m²). The main factors affecting the high level of prices in these areas were the proximity of the city centre and a very good network of city transport links.

Some well-connected areas situated within some distance from the centre could be qualified as Krakow districts with a moderate level of prices in the context of the entire city. They were, for example, Prądnik Biały (PLN 7,005/m²), Dębniki (PLN 6,974/m²), Prądnik Czerwony (PLN 6,855/m²) and Podgórze (PLN 6,277/m²). The group of cheapest districts of Krakow included Wzgórza Krzesławickie (PLN 5,766/m²), Bieżanów-Prokocim (PLN 5,749/m²), Nowa Huta (PLN 5,748/m²) and Podgórze Duchackie (PLN 5,662/m²).

The Czyżyny district was characterised by the largest number of advertisements for the sale of flats. As much as 12% of all offers originated in this area. Second place, with not much worse result, was taken by Bronowice at 11%. The next place fell to Krowodrza, which is situated much more centrally in comparison to the two previous districts. The supply analysis shows in which districts it is easiest to find real estate property thanks to the high number of offers. At the same time, this can be a clue for sellers that there is a relatively high concentration in these districts. The areas of Krakow with the smallest number of sales advertisements were Dębniki (0.5%), Nowa Huta (1%) and Grzegórzki (2%).

Chart III.2.1-4.

Price of 1 m² by the year of construction in 2011 (PLN)



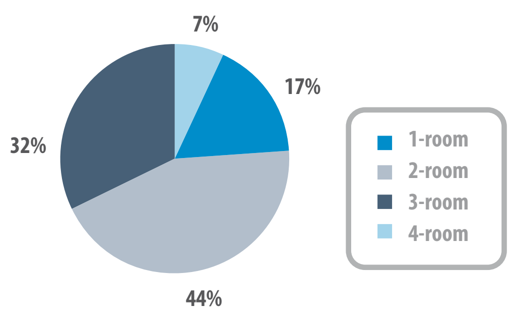
Source: Krajowy Rynek Nieruchomości – krn.pl

When analysing the prices of flats in Krakow by the years of construction, one can note that the cheapest flats were still those situated in tower blocks built utilising prefabricated concrete technology. The average price of such flats in 2011 amounted to PLN 6,479/m². Real estate properties built after 1990 were characterised by a much higher level of prices. The average price of 1 m² for this segment amounted to PLN 7,307 in the last year. The most expensive flats were those situated in buildings built prior to 1960, most frequently in the area of Stare Miasto, Kazimierz and Podgórze. The high level of prices of these real estate properties resulted largely from the perception of townhouses located centrally as properties that are luxurious and attractive in terms of investment. The flats from this segment maintain their price mainly thanks to their uniqueness, which stems from their special location, as well as architectural and historical values. The average level of prices of such properties in 2011 reached a level of PLN 8,220 m². In terms of amounts, this is more than PLN 1,500 higher than in the case of flats in buildings from the years 1960-1989.

When analysing the supply of offers of flats in Krakow by the number of rooms, one could note a steady tendency. The greatest number of flats (44%) came from the group of 2-room flats. The finding of an offer for the sale of a 4-room or larger flat was the most difficult. Flats from this segment constituted only 7% of the whole group of flats for sale. Practically every third seller offered flats from the 3-room group. There were relatively few offers on the market for the sale of bedsits. These constituted 17% of the total number of all flats.

Chart III.2.1-5.

Supply of offers for flats by the number of rooms in 2011 (%)



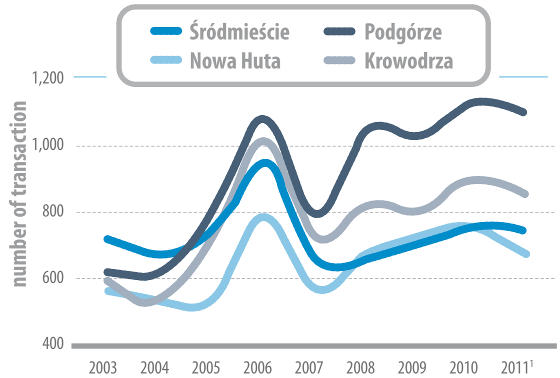
Source: Krajowy Rynek Nieruchomości – krn.pl

III.2.2. SECONDARY HOUSING MARKET – TRANSACTION PRICES

The two former districts of Krakow that are the largest in terms of surface area occupy opposite poles when one considers the number of sold flats. In 2011, every third flat on the secondary market was sold in Podgórze. For years, nearly half of all flats completed by developers and, with time, entering the secondary market to increase the volume of transactions in this market segment has been built in this area. The smallest number of flats is sold in the Nowa Huta area, where developers execute few residential investments, mainly due to the lowest prices that they can achieve there.
Since the market breakdown in 2007, for three subsequent years, the global number of transactions has been slightly growing. However, it was not possible to reach the peak achieved by the market in 2006, which had been the climax of the long-term bloom, as in the last year, the growing tendency was broken. The drop in the number of transactions amounted to approx. 5% in relation to the previous year. Developers who also noted a drop in sales in 2011 delivered annually only 0.5%-1.5% of the present number of all residential premises in Krakow. In comparison to the preceding years, fewer flats also entered the secondary market due to reliefs connected with the purchase of premises from the stock of the municipality or housing cooperatives.
The way the individual areas of Krakow were assessed could be observed in the average prices achieved for flats in the area of the four former districts. For years, the situation has not changed here. The greatest interest and, consequently, the highest prices can be noted in Śródmieście and Krowodrza. Lower prices can

Chart III.2.2-1.

Number of transactions on the secondary flat market

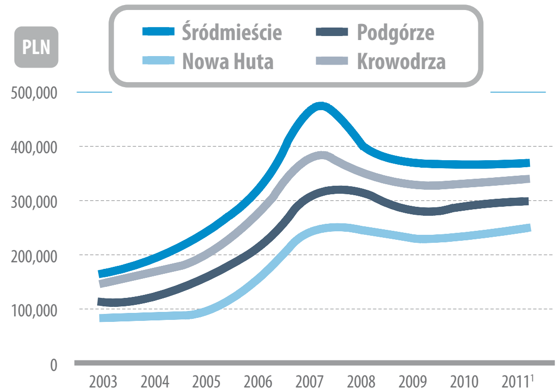


[1] amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.2.2-2.

Average transaction price for a flat on the secondary market (PLN)

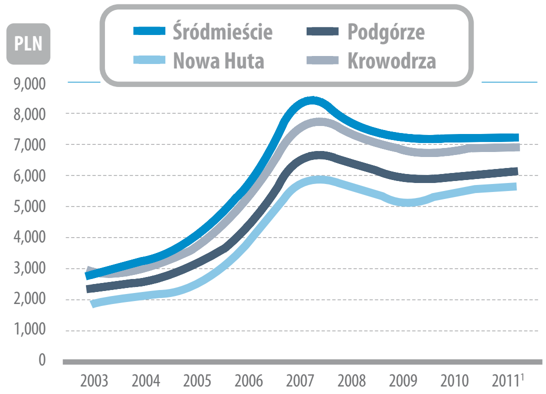


[1] amounts estimated on the basis of incomplete data

Źródło: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.2.2-3.

Average price of 1 m² of a flat on the secondary market (PLN)



[1] amounts estimated on the basis of incomplete data
Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

be achieved in Podgórze and, traditionally, the cheapest area is Nowa Huta.

The prices have practically remained unchanged in all districts. The slight rises were rather symbolic in relation to 2010. The market clearly manifests a stabilisation of prices lasting for 2 years.

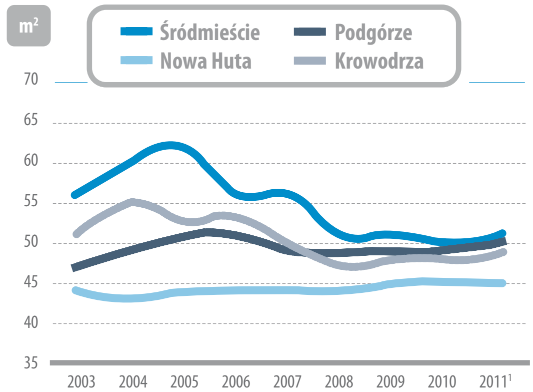
The average price of 1 m² in the case of all flats sold in 2011 continued at the same level, because the slight differences in prices that could be noted in individual areas of the city compensated one another. As far as districts are concerned, in the past year, the only slight adjustment took place in the Śródmieście area. In the remaining areas of the city, there was a slight rise in average unit prices.

The year 2011 showed that, after an intensive two-year activity, buyers started to restrict their purchases. This was certainly affected by the credit policy of banks, which, at the end of the past year, once again started to heavily limit access to credit facilities.

The average surface area of a flat purchased on Krakow's secondary market slightly rose after three years of continuing at the lowest level in history. Among all the city areas, only Nowa Huta did not follow this tendency. For the last three years, the average surface area of flats has been oscillating around 45 m² in this area. In other districts, the purchased flats were about 1 m² larger than in 2010.

Chart III.2.2-4.

Average surface area of residential premises on the secondary market in individual city districts (m²)



[1] amounts estimated on the basis of incomplete data
Source: Instytut Analiz Monitor Rynku Nieruchomości– mrn.pl

The average surface area of premises purchased in 2011 in the entire city is approx. 49 m². This points to the still meagre purchasing power of buyers who could afford only small flats. This is the main group of flats that were traded in the area of all Krakow districts.

Large flats are the subject of market trade relatively rarely. In 2011, transactions concerning premises with a surface area exceeding 65 m² accounted only for 15% of all transactions, and for those over 80 m², it was only 6% of the whole market.

Another effect of the market cooling at the end of last year, which caused a drop in the number of transactions, was the decreasing turnover. It fell by about 4% in relation to the previous

Warszawska Street

year, when this indicator had reached its highest value in the history of the city. The high activity of banks in 2010 resulted in the rise of the sum of financial resources flowing through the secondary flat market. However, the enforcement of the new T recommendation and modification of the S recommendation for banks acted as an effective inhibitor for further turnover records in 2011.

Summary

- In 2011, internal demand shrank due to the more restrictive criteria of granting mortgage loans, restrictions concerning the *Rodzina na Swoim (Family in Their Own Home)* Programme and psychological factors related to the crisis in the Euro zone. This led to a drop in the number of transactions and turnover on the secondary market.
- The majority of sales concerned small flats in all districts, while wealthier clients preferred the primary market.
- In 2011, there was an increase in the supply of developer flats commissioned for use. This led to a rise in competition between the two markets, as about 3,000 ready flats filled the primary market.

Lease of flats and houses

III.3

The analysis of rates for the lease of flats and houses in Krakow shows that, contrary to the situation observed on the sales market, advertisements appearing on the lease market continued at the same level or even noted a slight rise in 2011. The only segment where some price reductions were noted was the segment of 4-room and larger flats.

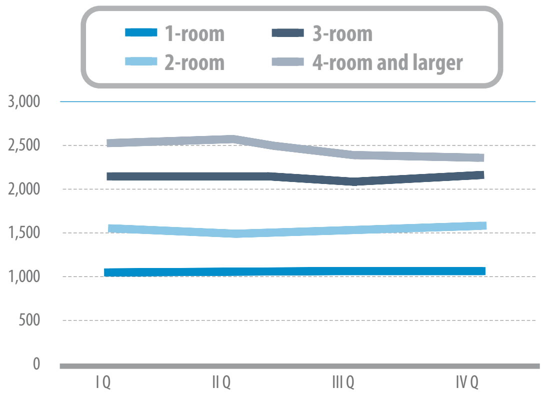
Dobrego Pasterza Street

The continuing level of lease rates showed the high popularity of this real estate market segment. The lease market in Krakow was additionally stimulated by the worsening of the situation on the sales market. Clients interested in the purchase of flats frequently could not obtain a mortgage loan due to the banks' restrictive policies. The deadlock on the sales market was certainly favourable to persons gaining profits from the lease of premises. On the other hand, one should note that a vast group of leaseholders was comprised of persons who could not sell their flat due to the worse situation on the market.

Similarly to the previous years, one could observe seasonal factors affecting the lease market and related to the holiday migration of students, who constitute a large group of Krakow leaseholders. Students frequently decide to lease flats with many rooms for a larger group of people in order to minimise the costs per person. Therefore, one could note the characteristic reductions of lease prices in the 3rd quarter precisely with regard to the group of 3-room premises and 4-room and larger flats. It is worth noting that with regard to 4-room flats, the reduction of prices from the 3rd quarter of 2011 remained fixed in subsequent months. Rates for the lease of 3-room flats returned in the 4th quarter to a level similar to that noted in the 2nd quarter.

Chart III.3-1.

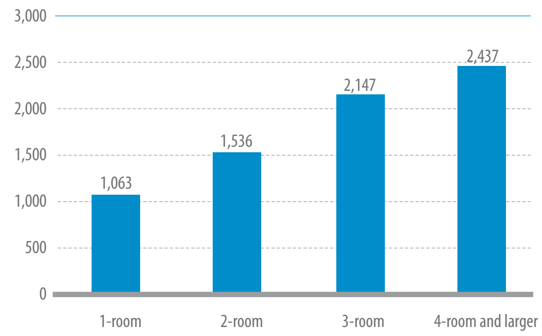
Price of flat lease depending on the number of rooms in 2011 (PLN)



Source: Krajowy Rynek Nieruchomości – krn.pl

Chart III.3-2.

Average price of flat lease depending on the number of rooms in 2011 (PLN)



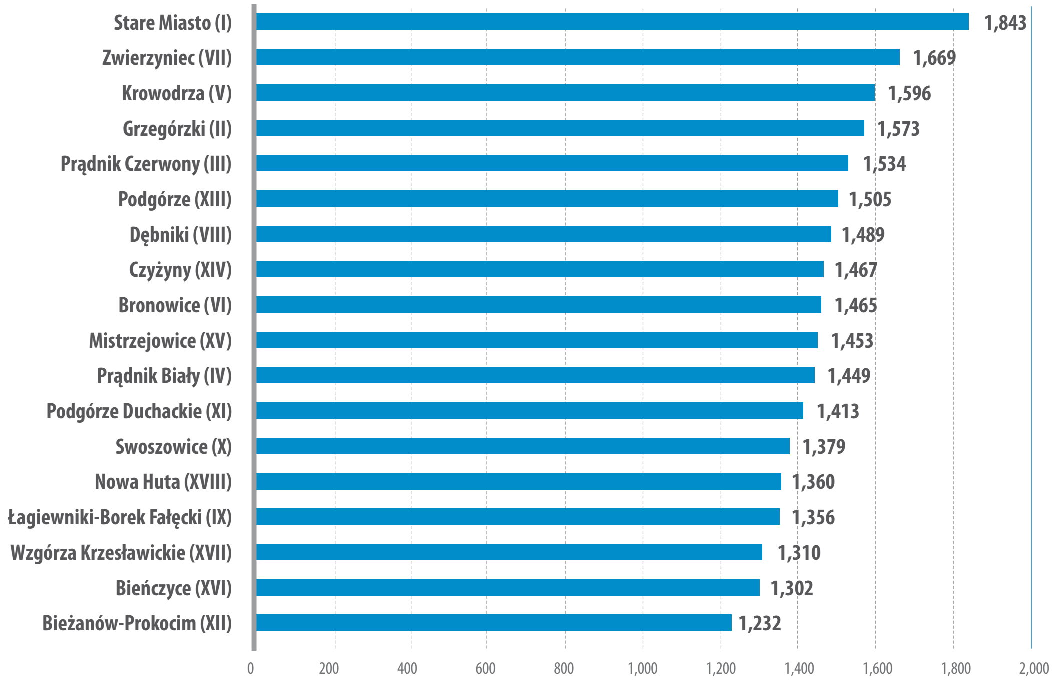
Source: Krajowy Rynek Nieruchomości – krn.pl

In 2011, for the lease of a bedsit, one had to pay an average sum of PLN 1,063, but the lease of a 2-room flat involved a cost of PLN 1,536. As far as amounts are concerned, this is PLN 473 more. In comparison to a 2-room flat in 2011, the lease of a 3-room flat on average cost PLN 611 more. The smallest difference was noted between the cost of lease of 3-room flats and 4-room and larger flats. The price difference between larger flats was significantly smaller. The lease of a 3-room flat cost PLN 2,147, while for the lease of a 4-room flat, one had to pay an average sum of PLN 2,437. This means that the price of lease varied only by PLN 290.

What is worth noting here is the structure of supply of offers for flats for lease in 2011 with regard to the number of rooms. The observations indicate that the most numerous group consisted of 2-room flats. Out of all flats offered for lease, nearly every second offer in 2011 referred to a flat from this group. The next place belonged to bedsits, which accounted for 1/3 of the total

Chart III.3-3.

Rate for the lease of a 2-room flat in 2011 (PLN)



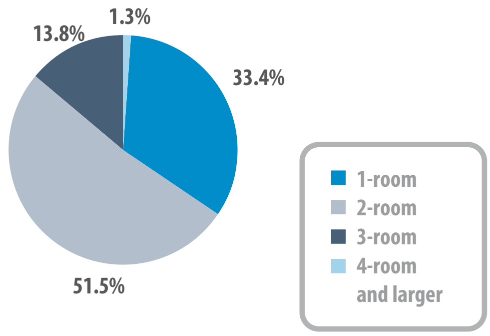
Source: Krajowy Rynek Nieruchomości – krn.pl

number of lease offers. It was much harder to find a 3-room flat and a 4-room or larger flat (14% and only 1% of all offers, respectively).

The lease price is determined by a variety of factors. The most important are the property's location and standard. These features are, to a large degree, decisive for the price of both lease and sale. The number of advertisements appearing in particular districts is also of some importance. This indicator helps to assess whether a client can easily find a flat in a given location. While examining the supply of lease advertisements in Krakow in 2011, it was noted that the greatest number of offers definitely came from the Dębniki district (16.1%). Second place with a slightly lower result belonged to Prądnik Biały (13.7%). Third place was taken jointly by Prądnik Czerwony

Chart III.3-4.

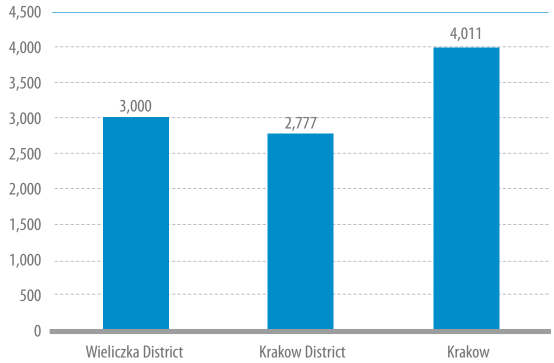
Supply of offers for flat lease by the number of rooms in 2011



Source: Krajowy Rynek Nieruchomości – krn.pl

Chart III.3-5.

Average price for the lease of a house in 2011 (PLN)



Source: Krajowy Rynek Nieruchomości – krn.pl

and Stare Miasto with 8.3% each. The survey shows that the remaining supply was distributed fairly evenly at 3-6% in various districts. The districts where there were much fewer lease offers included Wzgórza Krzesławickie (0.4%), Czyżyny (1.9%), Łagiewniki-Borek Fałęcki (2%) and Swoszowice (2.1%).

The lease price for a 2-room flat was examined because of the percentage of lease offers for the flats from this group. The lease prices in particular areas of Krakow followed a pattern similar to the sale prices. The most expensive district was Stare Miasto. The lease of a 2-room flat in this area required the payment of a monthly sum of PLN 1,843. In 2011, the cheapest district was, in turn, Bieżanów. The average cost of a flat lease in this area amounted to PLN 1,232, which is more than PLN 600 less than in Stare Miasto. The relatively cheap districts are Bieńczyce (PLN 1,302) and Wzgórza Krzesławickie (PLN 1,310). Apart from Stare Miasto, the most expensive districts in Krakow are Zwierzyniec (PLN 1,669) and Krowodrza (PLN 1,596).

In comparison to 2010, a rise in the price of a house lease was noted in Krakow. To lease a house in the capital of the Małopolska region in 2011, one had to pay PLN 4,011, i.e. about PLN 150 more than last year. The lease rates also increased considerably in the Krakow district. The average cost of a house lease in the suburbs of Krakow amounted to PLN 2,777. A rise in prices could also be noted in this market segment in the Wieliczka District. In this area, the prices rose by PLN 186 and retained the level of PLN 3,000.

Townhouses and historical surfaces

III.4

Historical townhouses with medieval basements as well as later burghers' houses with baroque façade decoration and pre-war modernist houses from the 1930s are the dominant urban planning form of the city centre encompassing the oldest part of the Śródmieście, Krowodrza and Podgórze districts. The characteristic features of such historical development include its situation in the most attractive locations of the city and inimitable architectural, historical and artistic values. The best locations generate the highest income from rents and services (trade, tourism and restaurants), and the uniqueness of form is the source of prestige for the owner of such building. For this reason, townhouses in Krakow have always constituted a separate segment of the investment real property market with its own dynamic, demand and supply. Due to the diversity of functions, the townhouse market most strongly correlates with the flat market (particularly apartment market), as well as the commercial surface market and the hotel and tourism market.

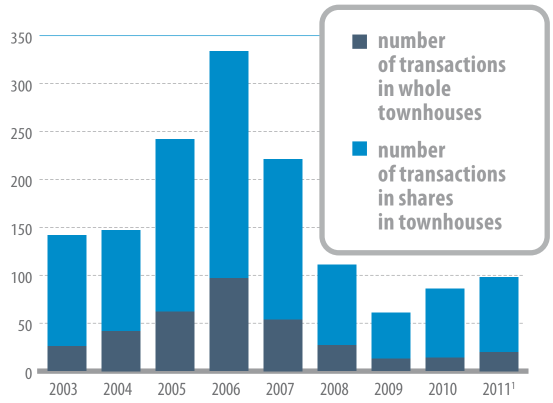
In Krakow, there are more than 10,000 townhouses, but still a large part of them have an unsettled legal status (no physical division and separation of shares). Another tendency involves permanent division and allotment of separate real estate premises. The supply of whole townhouses is thus greatly limited, and the new sale offers that appear result most frequently from further settlement of legal statuses, particularly ownership rights.

The market turnover in townhouses in Krakow refers to the area of all three pre-war districts of Śródmieście, Krowodrza and Podgórze. It is estimated that nearly 100 market transactions for the sale of townhouses were made in 2011, and 20 of them referred to whole real estate properties. The remaining transactions concerned shares in townhouses. After a period of drops in the number of transactions from the record 2006 year (observed in the years 2007-2009), since 2010 the number of concluded sale-and-purchase contracts has been rising. The year 2009 was the weakest in the entire 2003-2011 period in terms of the number of concluded transactions, but today one can note a considerable change in the tendency.

In 2011, the market noted a 29% rise in the turnover in relation to the previous year. The estimated

Chart III.4-1.

Number of transactions on the townhouse market in the years 2003-2011

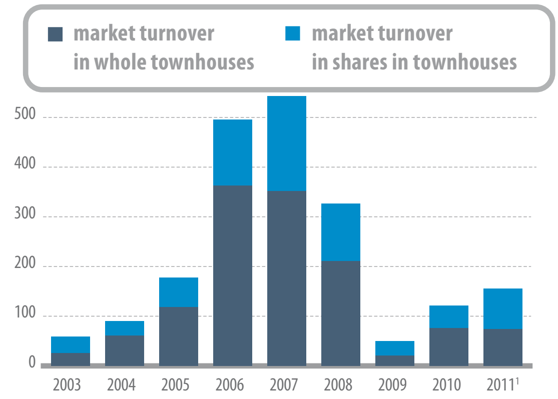


[1]amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości– mrn.pl

Chart III.4-2.

Market turnover in townhouses and their shares in the years 2003-2011 (millions of PLN)



[1]amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości) – mrn.pl

turnover amounted to more than PLN 156 million, while in 2010, it was PLN 121 million and only PLN 50 million in the dramatically weak 2009. In 2011, investors spent PLN 74 million for the purchase of whole townhouses, which is much less than in 2005.

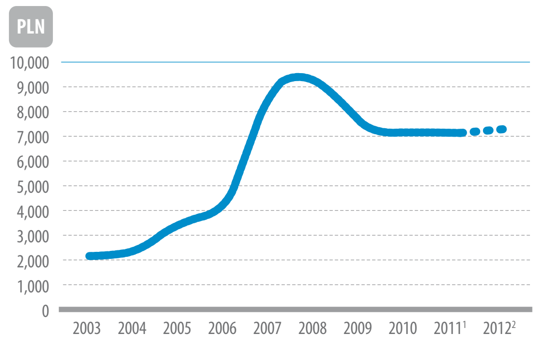
Both the volume and value of turnover in 2011 point to the breaking of downwards tendencies after the collapse in 2009, and this trend seems to continue the growing tendency started in 2010. After the boom of 2004-2007 and the slump of 2008 and 2009, investment capital has been returning for 2 years, which helps to gradually rebuild the market. But it is still a long way off the record years of 2006 and 2007, when a total of 151 townhouses changed their owners. The 2011 turnover constituted less than one third of the 2007 turnover. Analogous tendencies have been dominant on the flat, commercial and hotel markets in recent years.

The analysis of transaction prices in recent years shows the stabilisation of the prices of townhouses at a level slightly exceeding PLN 7,100/m^2 in Śródmieście. It was probably the first such period since 2003 and the rapid rises and drops in prices that occurred in the years following 2003. The highest price paid in 2011 for a townhouse was PLN 14 million with the average market price of real estate properties at PLN 3.8 million. To compare, in 2010, the most expensive townhouse reached a price of PLN 21 million, and the average market price of real estate properties amounted to PLN 5.4 million. However, the unit prices calculated per 1 m^2 of townhouse in Śródmieście in 2011 reached the same level as the year before, i.e. PLN 7,100. Since the record year of 2007, the unit prices of townhouses have dropped by 20%.

What is interesting is the comparison of average unit prices of townhouses entered into the heritage register. The average prices of such townhouses in Śródmieście were at the level exceeding PLN 11,000/m^2, which could indicate a considerable interest in historical surfaces in Krakow. But one needs to remember that in the case of this district, historical townhouses are precisely those located in the most attractive vicinities. For this reason, the assessment of

Chart III.4-3.

Average prices of townhouses in Śródmieście in the years 2003-2011 (PLN/m² of usable surface)



[1] amounts estimated on the basis of incomplete data
[2] forecast

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

what part of the price is associated with location and what part is associated with the historical features of the townhouse always requires a thorough analysis.

On the other hand, as far as the average unit prices of residential premises in historical townhouses are concerned, they fit the range of PLN 8,000-12,000/m², although one could also find prices exceeding PLN 15,000/m². These values seem similar to the average prices of usable surfaces of townhouses, but one needs to remember that for this price, the buyer of a townhouse usually receives an attic that can be adapted, a basement and a courtyard that offers opportunities of at least minimum management. At this such average price, the historical Francuski Hotel in Krakow was sold in 2011. If the paid sum was calculated as the value of 1 m² of usable surface together with furniture and furnishing, it would fit the range of PLN 11,900-15,800/m², depending on the included "appurtenances".

In 2011, the tendencies that started in the middle of 2010 continued with regard to the inhibition of drops and the beginning of the tendency's reversing to a slight growth, and the same can be seen in the beginning of 2012. However, one has to note that the immanent feature of this market is a considerable diversification of unit prices (PLN 2,000-22,000/m² of usable surface) stemming from huge disproportions in location attractiveness (e.g. Głogowska Street in Podgórze and Kanonicza Street near Wawel Castle), technical and usable conditions (from luxurious townhouses to vacant buildings that require major renovation works) and the income from lease (from commercial surfaces leased for PLN 300-400/m² to flats with tenants paying regulated rent at PLN 10-13/m²). For most investors, the expected return rate is the basis for the calculation of the cost-effective price of townhouse purchase.

The structure of demand in 2011 points to the dominance of investors in the residential and apartment industry and limited but stable demand for the purposes of the hotel and tourist market (purchases for hotels, hostels, boarding houses, restaurants), while the demand from investors looking for townhouses to accommodate offices and company headquarters is low. The investment attractiveness of townhouses is visible in the case of new apartment investments in the city centre – the so-called infill buildings (supplementing the development between existing townhouses). Apartments in infill buildings as handed over by developers are sold at record prices. The buyers are willing to pay the highest prices for the combination of most convenient location with the luxurious finishing of the building and premises, which is distinctly exemplified by the investment at Na Groblach Square (prices exceeding PLN 20,000/m² of premises). This phenomenon can be observed even more clearly on the market of commercial premises, where unit prices in townhouses along the main streets of the city already exceeded PLN 40,000 m² in 2010.

Summary

- Forecasts for the townhouse market in Krakow are optimistic, which is shown by the rise in the number of transactions and market turnover.
- The townhouse market will still be strongly correlated with the apartment market and, to a smaller degree, with the hotel and commercial market.
- The "magnet" attracting new investors is Krakow's very good brand as the tourist capital of Poland. However, the development of this market will be conditioned by a good macroeconomic situation of the country.

Single-unit houses

III.5

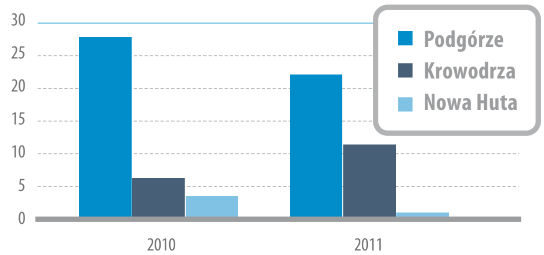
III.5.1. SINGLE-UNIT HOUSES IN KRAKOW

Primary market

Similarly to the previous year, the analysis of the primary market points to the constantly decreasing activity of developers. In the preceding years, the majority of investments in this market had already moved to neighbouring communes due to the lower prices of land and the planning order, which makes it easier for developers to obtain building permits. Due to greater difficulties with the acquisition of resources for the purchase of houses, there was a drop in demand, and the ensuing oversupply resulted from the many investor projects started in the previous period.
In relation to 2010, there was a drop in both the number of transactions on the primary market and the volume of turnover. In 2010, 64 transactions were noted, while in 2011, there were 60 transactions, and one could observe a drop in turnover from PLN 46.63 million to PLN 41.88 million. Drops were noted at a level of 6% and 10%, respectively.
One can observe a strong diversification of the activity of developers in individual former districts of Krakow. In the last two years, no devel-

Chart III.5.1-1.

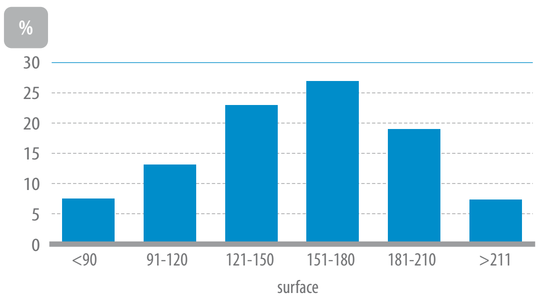
Turnover in houses on the primary market in various areas of Krakow in the years 2010-2011 (millions of PLN)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.5.1-2.

Share of transactions by ranges of surface of houses on the primary market in 2011 (m^2)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

oper ventures were noted in Śródmieście, and the figures for Nowa Huta are low. Developers were most active in Podgórze. In 2011, the sales of houses rose only in the area of the former Krowodrza district.

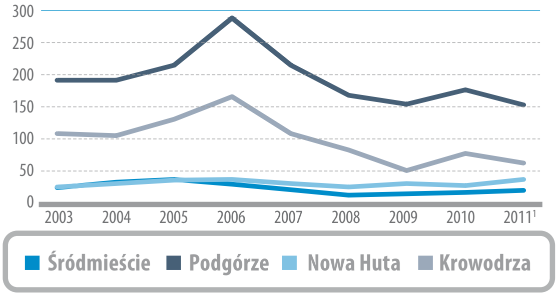
In 2011, the average transaction prices for a house on the primary market dropped by 5% in relation to the previous year from PLN 745,000 to PLN 705,000. The average price of 1 m² of usable surface dropped by 6% from PLN 5,000/m² in 2010 to PLN 4,700/m² in 2011. This means that the average usable surface of single-unit buildings on the primary market slightly rose.

The average surface of a single-unit house sold on the developer market in 2011 was 162.64 m², which points to a slight rise (within error limits) in the average surface in relation to the previous year.

The lowest noted price for 1 m² was PLN 2,850 in the peripheral location in Nowa Huta. The highest prices were noted in Krowodrza with up to PLN 8,000/m² for a house as handed over by the developer and PLN 8,800/m² for a small, fully-finished building.

Chart III.5.1-3.

Number of transactions on the secondary house market in the years 2003-2011

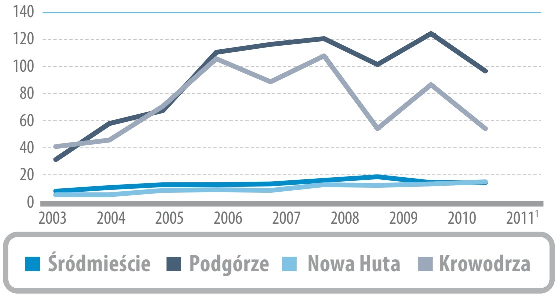


[1] amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.5.1-4.

Total turnover in houses on the secondary market in the years 2003-2011 (millions of PLN)



[1] amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Secondary market

In 2011, the secondary market observed a slight decrease in the number of concluded transactions. Thus, the market's activity in this sphere returned to the condition from 2009. A similar phenomenon could be observed with regard to the volume of turnover. The turnover returned to a level similar to that in 2009.

The level of prices became stable. Considering the smaller number of transactions and the lower turnover in comparison to 2010, one can speak of the lack of sellers' acceptance of a further reduction of prices.

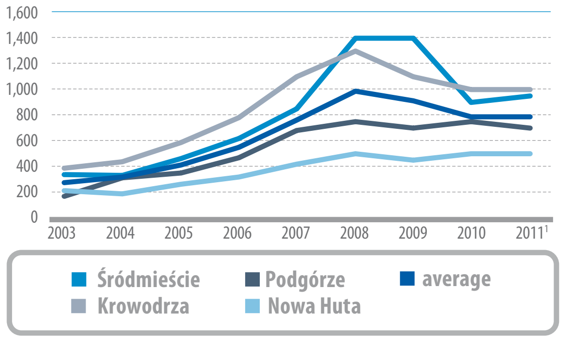
Similar conclusions could be reached when observing changes in the prices of houses calculated for 1 m². One could note the stabilisation of prices, although a slight rise in the prices of the cheapest houses and a slight drop in the prices of more expensive houses could be noted.

In 2011, the price for a house was usually PLN 4,000-5,000/m². With the average surface of the house being 150 m². This put the average transaction price at approx. PLN 700,000.

The market is still dominated by transactions of the sale of relatively small houses. Houses with a surface of over 200 m² account for only 15% of the turnover.

Chart III.5.1-5.

Average prices for a house on the secondary market in the years 2003-2011 (PLN)

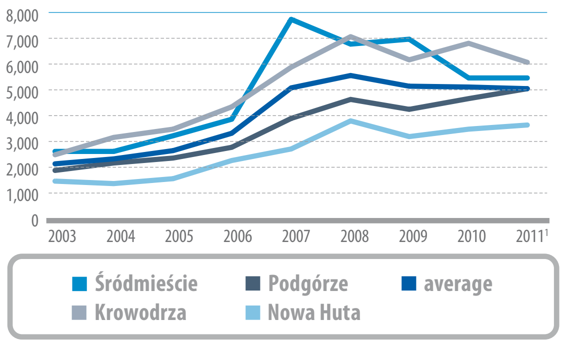


[1] amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.5.1-6.

Average prices for 1 m² on the secondary market in the years 2003-2011 (PLN)

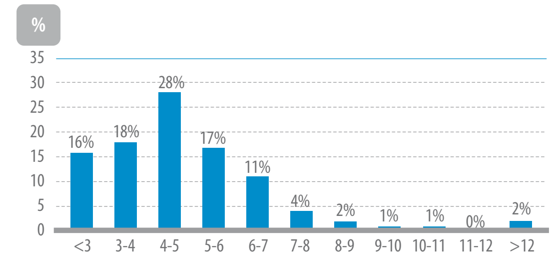


[1] amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.5.1-7.

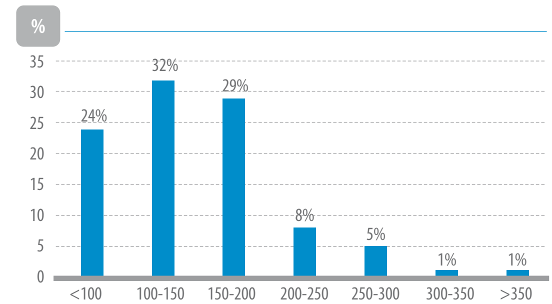
Share of transactions by ranges of prices of houses on the secondary market in 2011 (thousands PLN/m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.5.1-8.

Share of transactions by ranges of prices of houses on the secondary market (PLN/m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Summary

- In the segment of the primary market of single-unit houses, a slight drop in demand was observed, which was manifested by a lower turnover, smaller number of transactions and a drop in the average price calculated for a surface unit.
- The primary market became more competitive in relation to the secondary market and markets in the communes neighbouring Krakow.
- On the secondary market of single-unit houses, a drop in demand was noted, which was manifested by a lower turnover and a smaller number of transactions. The value of houses became stable, which shows the lack of sellers' acceptance of a further reduction of prices.
- The price spread was further reduced. The prices of the most expensive houses slightly decreased, and the prices of the cheapest houses slightly rose.

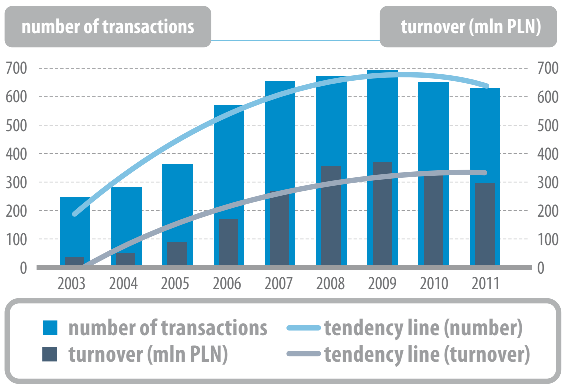
III.5.2. SINGLE-UNIT HOUSES IN THE KRAKOW'S SUBURBAN ZONE

Krakow District and Wieliczka District

The available transactions conducted in 2011 on the market of single-unit houses point to a downward tendency with regard to the number of transactions and the volume of turnover. These conclusions stem from the analysis of data from the Krakow district and Wieliczka district made available to date. In the years 2003-2008, these districts noted a rise in the number of concluded contracts for sale and purchase of real estate properties. Later, in 2009, the growth tendency in the Krakow district was accompanied by a considerable drop in the number of transactions in the Wieliczka district, while in 2010, there was a significant growth in the Wieliczka district, and no such tendency was observed in the Krakow district. Since 2007, the annual number of transactions in the Krakow district has been invariably ranging from 600 to 700, but in the last year, it neared the lower mark. In terms of the number of transactions, the record was set in 2009 when 692 sales contracts were noted. In turn, in the Wieliczka district, the number of transactions in four years ranged from 300 and 350, with the exception of 2009.

Chart III.5.2-1.

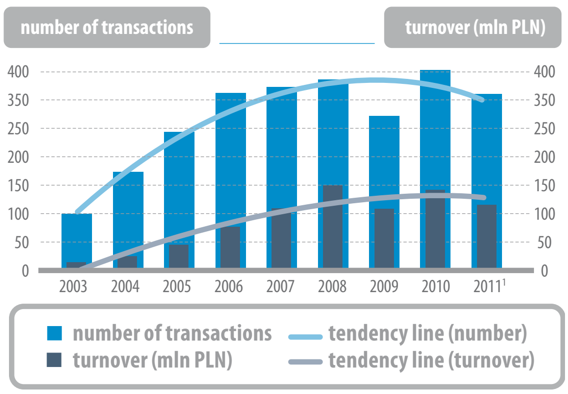
Number of transactions and turnover in houses in the Krakow district



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.5.2-2.

Number of transactions and turnover in houses in the Wieliczka district



[1] amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

In 2011, the turnover on the market of single-unit houses dropped in the Krakow district below the level of PLN 300 million and continued a downward tendency lasting for three years. The analogous turnover value for the Wieliczka district was approx. PLN 120 million in 2011, so this area also noted a drop in comparison to 2010.

The tendency lines generated for broad timelines suggest a probable unfavourable tendency in 2012.

The same unfavourable downward tendency can be noticed in the Wieliczka district, and a serious drop in the volume of turnover in relation to the number of transactions points to a general drop in prices on this market.

Krakow District

The highest number of transactions concerning single-unit houses was noted in the communes of Zielonki, Zabierzów, Michałowice and Wielka Wieś. To date, the number of transactions made available at the District Starosty for 2011 shows that in 2011, more sales contracts were concluded in the Michałowice and Skawina communes than in 2010. In the examined period, the most severe drop in the number of transactions referred to the Zielonki commune. The areas at the north-west borders of the city and the Mogilany commune south of Krakow still enjoyed huge popularity amongst buyers.

The highest turnover was noted in the communes of Zielonki, Zabierzów, Michałowice, Mogilany and Wielka Wieś (this also correlates with the number of transactions), while the highest transaction price was reached in the Mogilany commune. This was a large real estate property with a residential building with a surface of over 400 m^2 in a good location, which was sold for PLN 3.2 million.

Table III.5.2-1.

Number of transactions, turnover and average prices for 1 m^2 of single-unit houses in the Krakow district in 2011

Commune	Number of trans-actions	Turnover (thousands of PLN)	Average price for 1 m^2 (PLN)
Czernichów	38	13,873	3,138
Igołomia--Wawrzeńczyce	6	1,605	2,142
Iwanowice	10	3,787	3,155
Jerzmanowice--Przeginia	3	1,360	2,798
Kocmyrzów--Luborzyca	30	11,016	2,754
Krzeszowice	37	9,491	2,685
Liszki	29	11,089	2,796
Michałowice	53	26,136	3,248
Mogilany	34	24,904	3,789
Skała	23	7,681	2,542
Skawina	36	13,162	4,104
Słomniki	8	3,352	3,692
Sułoszowa	7	954	2,088
Świątniki Górne	17	6,821	3,184
Wielka Wieś	43	20,298	3,598
Zabierzów	66	37,925	4,079
Zielonki	100	52,104	4,170

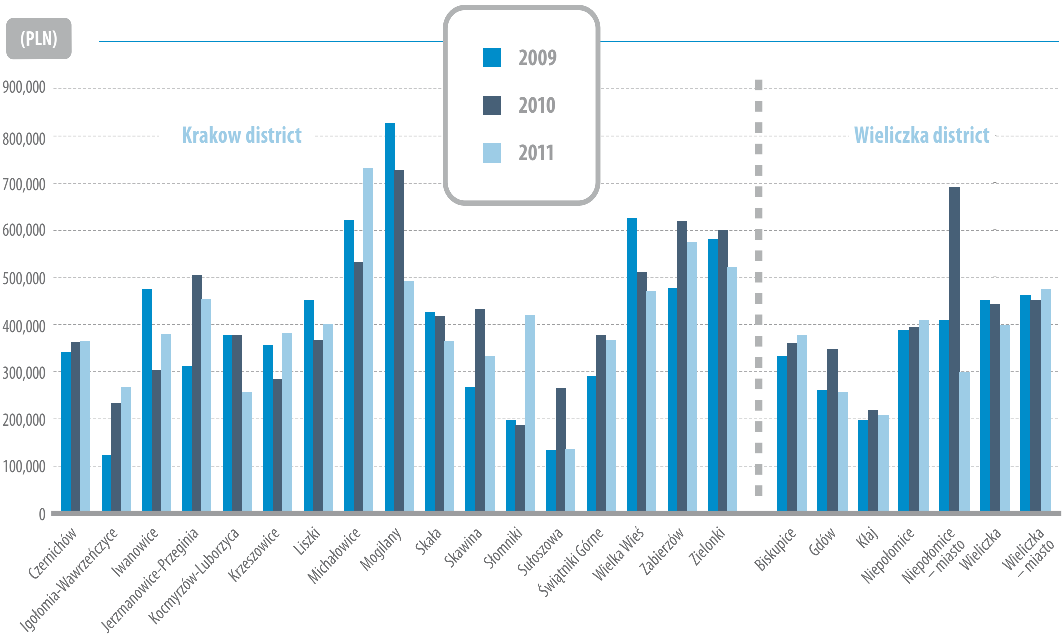
Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

The historical analysis of average transaction prices for real estate properties in the Krakow district point to a downward tendency, mostly in communes with the greatest number of transactions. What is worth noting here is the considerable rise in the average transaction price in Słomniki.

Despite unfavourable tendencies, 2011 was a year of increased activity of developers, which was manifested by their share in all transactions which exceeded 60% and the fact that

Chart III.5.2-3.

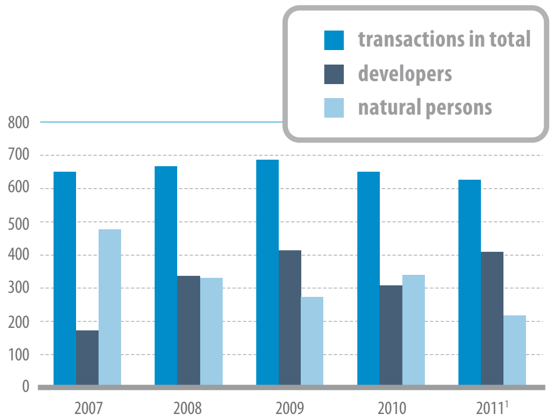
Average transaction price for a house in the communes of the Krakow and Wieliczka districts in the years 2009-2011



Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

Wykres III.5.2-4.

List of the number of transactions conducted by developers and natural persons in the Krakow district in the years 2007-2011



[1] amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

the number of such transactions was higher than in 2010.

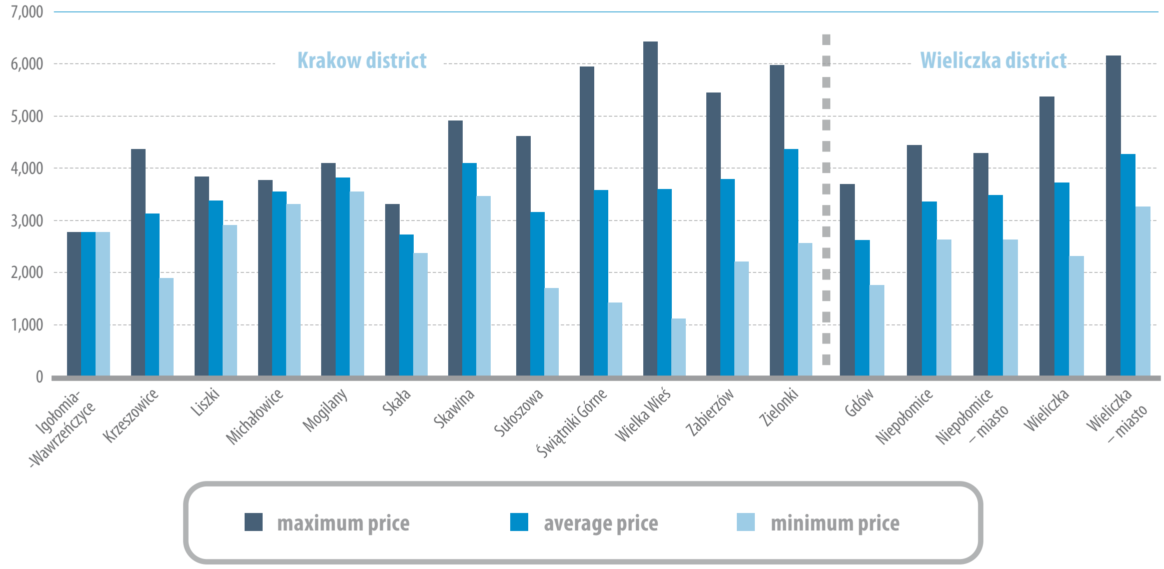
The analysis of the prices of 1 m^2 in developers' transactions shows that in the communes where there were many transactions, a considerable difference between the maximum and minimum price could be observed, depending on the advancement of works in the building sold.

Wieliczka District

In the Wieliczka district, the majority of transactions took place in the town and commune of Wieliczka and Niepołomice. Houses in Wieliczka also reached the highest average prices for 1 m^2 in the district.

Chart III.5.2-5.

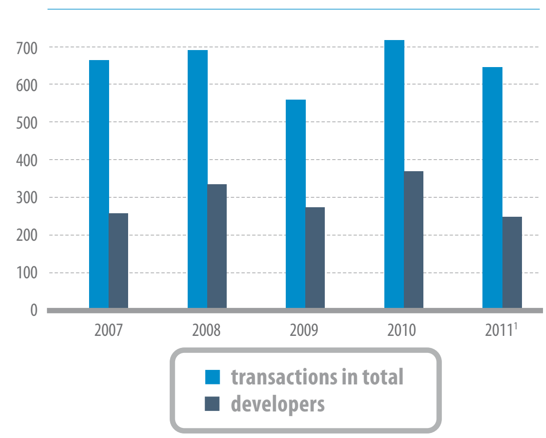
List of minimum, average and maximum prices for 1 m² of a house in the communes of the Krakow and Wieliczka districts in 2011 – developers' transactions (PLN)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart III.5.2-6.

List of the number of transactions conducted by developers and natural persons in the Wieliczka district in the years 2003-2011



[1] amounts estimated on the basis of incomplete data

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

In the communes of Biskupice, Niepołomice (commune) and Wieliczka (town), one could observe a slight rise in average transaction prices; while in the other examined areas, there was a drop in prices.

The highest transaction noted in 2011 in the Wieliczka district referred to a real estate property situated in Koźmice Małe (Wieliczka commune). A residential building in a closed raw state with a surface of almost 400 m² standing on a 190-are plot was bought for PLN 1,145,000.

It seems that in 2011, developers were more active in the Krakow district, while in the Wieliczka district, there was a considerable drop in the number of such transactions.

What has to be emphasised is the annual growing activity of natural persons on the secondary market, which is manifested by the number of transactions conducted by them.

In the Wieliczka district, developers ran their activities in the communes of Gdów, Niepołomice

Table III.5.2-2.

Number of transactions, turnover and average prices[1] for 1 m² of single-unit houses in the Wieliczka district in 2011

	Number of transactions	Turnover (in thousands of PLN)	Average price for 1 m² (PLN)
Biskupice	18	6,805	2,807
Gdów	26	6,663	2,736
Kłaj	18	3,751	1,870
Niepołomice	52	21,263	3,314
Niepołomice–miasto	29	8,664	2,758
Wieliczka	110	43,870	2,989
Wieliczka – miasto	33	15,686	3,819

[1] the average price of 1 m² calculated on the basis of transactions where the building's usable surface was quoted.
Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

and Wieliczka. In 2011, no sales transactions were concluded in Biskupice and Kłaj.
As part of their investments, developers offered houses at prices close to the average prices in the given area. They also ensured a modern standard and fencing of the entire estate, but one has to remember that these were usually houses to be finished and frequently with a lot lower degree of investment advancement than flats.

Summary

- Relatively many transactions were concluded despite the difficult situation on the real estate market, and the unit prices continued at a high level.
- The drop in the number of transactions on the market in both the Krakow district and the Wieliczka district was slight.
- Real estate properties located close to the limits of Krakow still enjoyed the greatest interest.
- What could also be noted was the levelling of prices: a slight rise or stabilisation in underestimated towns and villages situated within a greater distance from Krakow and usually a drop in prices in communes where the transaction prices had been highest.

Land

IV

IV. 1. LAND IN KRAKOW

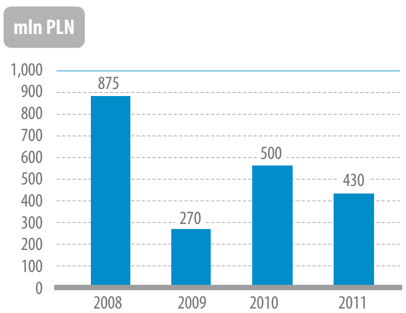
Construction land

The year 2011 brought some ambiguous signals on the Krakow land market. In comparison to 2010, a rise in average transaction prices in most market segments was noted, but it was not confirmed by the number of transactions and the value of turnover. In 2008, there were about 900 transactions and a turnover at a level of PLN 870 million. In the slender 2009 year, there were about 500 transactions with a very low value of turnover at a level of PLN 270 million. Preliminary data shows that about 650 transactions were concluded in 2011 with a turnover value at a level of PLN 430 million, which – in comparison to 2010 – forms a drop in the volume of transactions by about 15% and the value of turnover by about 25%. It is difficult to speak about any growth on the market if there were only a few transactions for a dozen or several dozens of millions of PLN and a dozen or so transactions involving large-surface (at least 1 ha) lands.

In 2011, the average transaction price of construction lands surprisingly rose by about 10% in relation to 2010. However, this rise should not be identified with the further improvement of the situation on the land market and growing demand, but with a drop in low-value transactions involving plots for single-unit development and an increase in the number of transactions involving plots for commercial ventures and high-value transactions for multi-unit residential development.

Chart IV.1-1.

Turnover on the market of construction lands in the years 2008-2011[1] (millions of PLN)



[1]data does not include non-market transactions, lands purchased by the Commune and State Treasury in relation to the execution of investments in road infrastructure and contributions in kind made between various entities. For 2011, the preliminary estimate data is presented.

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

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Table IV.1-1.

Number of transactions on the construction land market in the years 2008-2011[1]

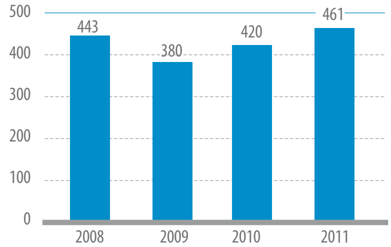
Year	2008	2009	2010	2011
Number of transactions	900	500	750	650

[1] data does not include non-market transactions, lands purchased by the Commune and State Treasury in relation to the execution of investments in road infrastructure and contributions in kind made between various entities. For 2011, the preliminary estimate data is presented.

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart IV.1-2.

Average price of 1 m² of construction land in Krakow in the years 2008-2011[1]



[1] data does not include lands purchased by the Commune and State Treasury in relation to the execution of investments in road infrastructure and contributions in kind made between various entities. For 2011, the preliminary estimate data is presented.

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Similarly to the previous years, the greatest quantitative share in land turnover invariably belonged to plots for single-unit residential development. In 2011, their share accounted for nearly 54% of all transactions in construction lands. This means a vital drop of 20% in comparison to 2010.

Considering the value of transactions on the land property market, plots for multi-unit residential construction and residential-and-service construction invariably dominate with the share in the land turnover at approx. 52%. The share of plots for single-unit residential development did not change, continuing at a level of approx. 25% of the turnover value. On the other hand, one can note a qualitative increase in the share of lands for commercial development to approx. 20% and a considerable drop to about 3% in the share of plots for public greenery and agricultural plots in the turnover on the land property market.

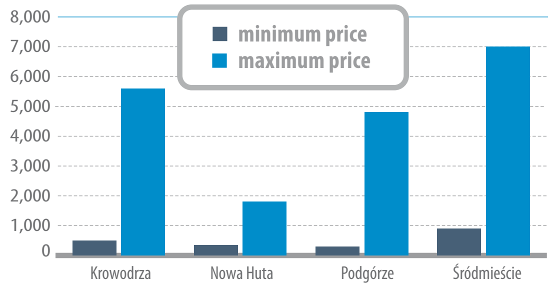
In terms of the quantity and value of turnover, the market of lands for multi-unit residential development and residential-and-service development was asymmetrical in various districts. The value of transactions in Śródmieście decreased from 50% to about 20%. Investors focused on the Podgórze and Krowodrza areas, which generated nearly 70% of the turnover value. The most expensive single transaction was noted in Kazimierz at Estery Street in Plac Nowy with the sale of a plot with the surface of 467 m² for the unit price of almost PLN 7,000/m². The average transaction prices of plots for multi-unit development rose in Krowodrza, Podgórze and Nowa Huta. In Śródmieście, the average price remained unchanged.

In Krowodrza, the greatest number of transactions was noted in Łobzów, while in Podgórze and Nowa Huta, it was Płaszów and Czyżyny, respectively.

The market of plots for single-unit residential development was not uniform: with a 20% drop in the number of transactions in comparison to 2010, one could note a drop in the number of low-value transactions, particularly in Nowa Huta and Podgórze, and a rise in the higher-value locations in Krowodrza and Podgórze. The average transaction prices of plots for single-unit residential development increased by about 8% in Krowodrza and Podgórze, while in Nowa Huta, they remained unchanged in comparison to 2010. This may seem a surprising tendency, but it stems mostly from a large number of transactions in the relatively more expensive plots in Wola Justowska and Bronowice Małe in the Krowodrza area, as well as in Skotniki, Kliny and Jugowice in the Podgórze area.

Chart IV.1-3.

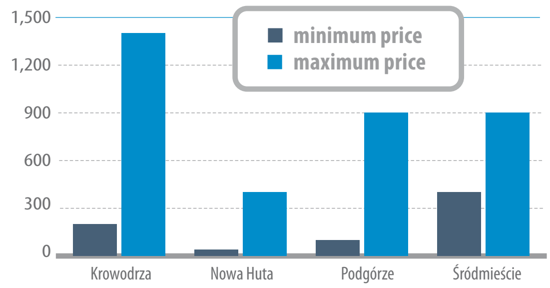
Prices of land for multi-unit residential development in 2011 (PLN/m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart IV.1-4.

Prices of land for single-unit development in 2011 (PLN/m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

The surprising rise of prices with a considerable drop in the number of transactions does not suggest a steady growth tendency in this segment. This means that the market appreciates good, more expensive and specific locations and ignores poor and cheap locations.
Invariably, one has to pay the highest price for plots for single-unit construction in Wola Justowska at an average sum of PLN 600-1,400/m².
As far as the commercial plot (UC) market is concerned, one could observe the continuation of a slight improvement from the second half of 2010. Regardless of the district, the majority of prices of such plots was at a fairly high level of PLN 500-1,300/m². Due to on-going infrastructural investments in the area, the areas that seem commercially prospective include the areas at the Radzikowskiego Roundabout and the undervalued areas in the vicinity of the Balice Airport.
On the market of industrial plots (PS) that are situated mostly in Podgórze and Nowa Huta, the level of prices in the main industrial areas of these districts continued at a similar rate as in 2010: ranging from PLN 50 to PLN 300/m² in Podgórze and from PLN 50 to PLN 220/m² in Nowa Huta. The construction of the S7 route between the A4 motorway and Botewa Street and the prospect of closing the eastern ring road resulted in "rediscovery" and interest in the Rybitwy location.

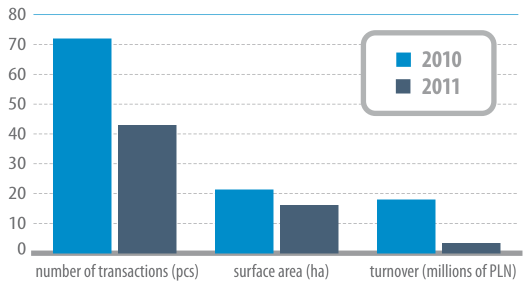
Green areas

The city greenery within Krakow's administrative limits covers less than 9% of the city surface and is comprised of over 1,400 ha of forests, about 425 ha of parks, over 100 ha of cemetery greenery and nearly 1,000 ha of other greenery (garden plots, fortress greenery, bushes and thicket, greenery at water courses and reservoirs and street greenery). In addition, about 3,500 ha of land act as reserves with non-managed

Kopernika Street

Chart IV.1-5.

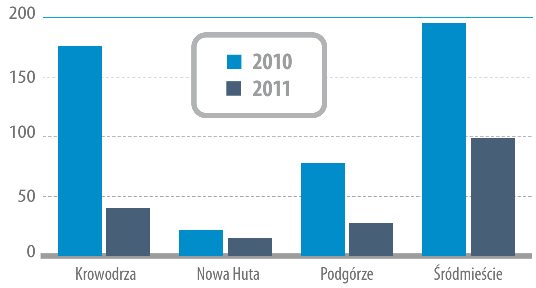
Number of transactions, surface area and turnover in green areas in Krakow in the years 2010-2011



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart IV.1-6.

Average sale prices of green areas in Krakow in the years 2010-2011 (PLN/m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

greenery in the form of so-called greenfield sites, meadows and grounds. Together they constitute about 20% of the city surface that can be treated as green areas. Forest properties and city parks are protected against development with general regulations throughout the entire city, regardless of the form of ownership. Non-managed areas comprised of open meadows and grounds are effectively protected against change in the manner of usage by local spatial management plans valid in the suburban zone and along the ecological corridor following the Vistula River Valley. The assignation of a part of non-developed areas for greenery provides an opportunity for sustainable development of suburbs, which tempts investors with much lower land prices in comparison to the city centre.

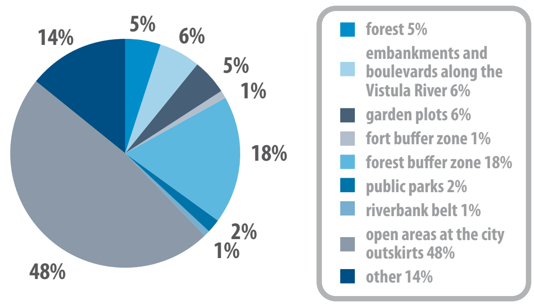
In comparison to 2010, the volume of sales, surface area of sold lands and turnover in such real estate properties considerably decreased in the course of the last year. In 2011, according to data for the first three quarters, there were more than 40 sales of green areas with a total surface of about 16.4 ha and a turnover of nearly PLN 3.5 million.

The greatest share in the surface area of sold green areas belonged to Podgórze at more than 50%. The remaining part comprised transactions in Krowodrza (30%) and Nowa Huta (19%).

In the first three quarters of 2011, the average price for the sale of green areas in Krakow amounted to only PLN 32/m², which is much less than in the previous year. A drop in prices in comparison to 2010 was noted in all districts.

Chart IV.1-7.

Structure of green area surface in Krakow sold in 2011



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl


Grzegórzeckie Roundabout

The average price amounted to more than PLN 40/m^2 in Krowodrza, less than PLN 20/m^2 in Nowa Huta, nearly PLN 30/m^2 in Podgórze and nearly PLN 100/m^2 in Śródmieście, where only one property assigned for greenery was sold.

This data cannot be the basis for making conclusions about changes in the level of prices in the last two years, because such high price differences resulted from the characteristic features of lands sold in 2011 related to their location and special function. The greatest share in the surface area of sold lands belonged to open areas of meadows and grounds in the city's peripheries far from development and technical infrastructure.

All transactions used for calculation purposes refer to properties assigned in the local plan or the study of conditions for the spatial management of Krakow for greenery, forest or cultivation without building permission.

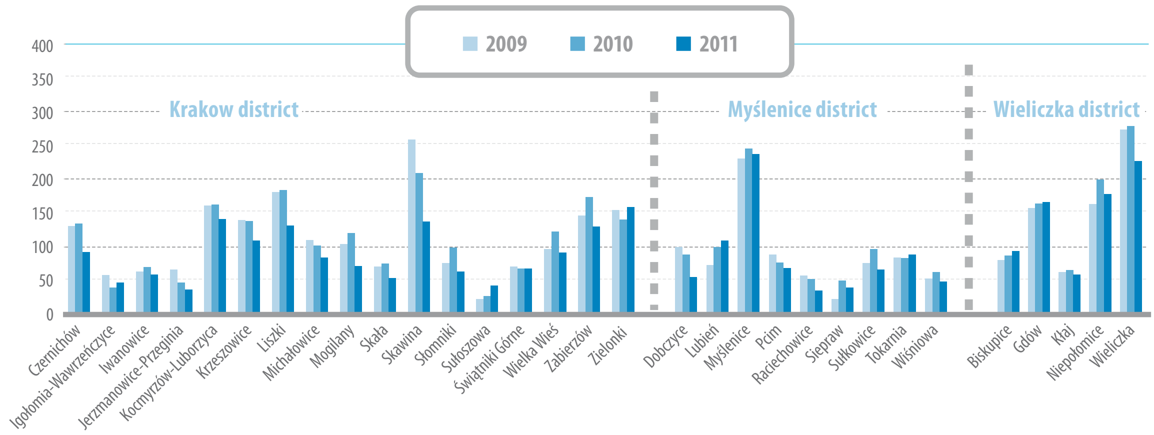
Summary

- Ambiguous and surprising signals on the construction land market, 10% rise in the average transaction price with a drop in the volume of transactions by 15% and a drop in the size of turnover by 25%.
- A drop in the number of low-value transactions in plots for single-unit development and rise in the number of transactions in plots with commercial assignation and higher-value transactions for multi-unit residential development.
- The sales, value and number of transactions in green areas decreased.

IV.2. LANDS IN THE SUBURBAN ZONE

Chart IV.2-1.

Number of transactions concerning non-developed lands in the communes of the Krakow, Myślenice and Wieliczka districts

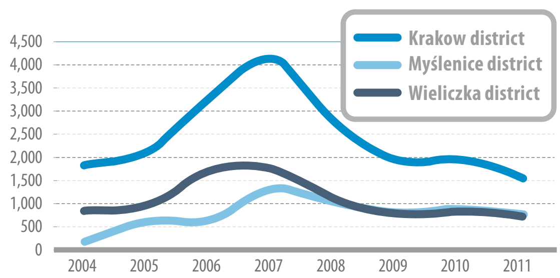


Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

A slump in the area of non-developed land properties lasting for the last three years offers no hope for the improvement of the situation and, despite the slight growth observed in the spring of last year, the market is still in stagnation. In some locations, a slight rise in prices was actually noted, but the number of concluded contracts consistently decreased. This mainly concerned villages and towns situated in close proximity to Krakow. Among the most popular locations near Krakow, only the Zielonki commune noted a rise in the number of transactions, whereas the other communes registered drops of several per cent. The situation was a bit different in the district peripheries (communes of Lubień, Tokarnia, Biskupice, Gdów and Igołomia-Wawrzeńczyce), where, after a drop in 2008, the

Chart IV.2-2.

Number of transactions in lands in the districts

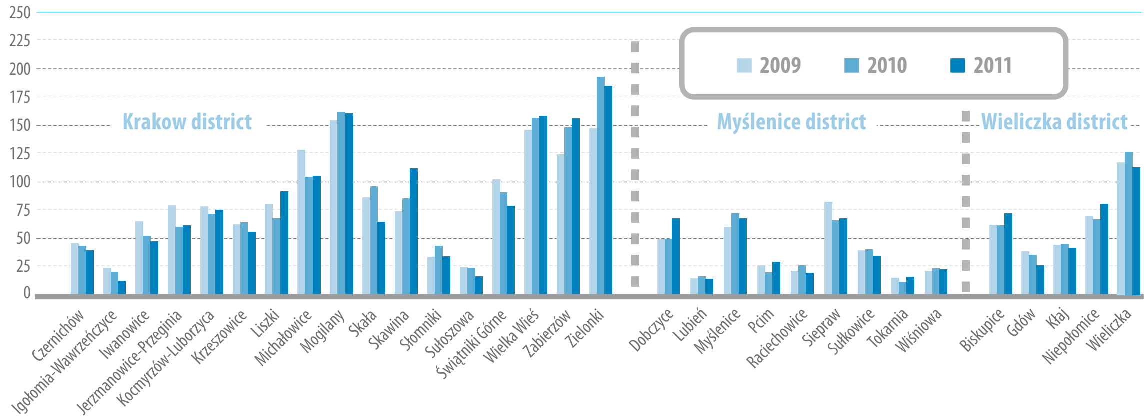


Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

number of transactions has been increasing year by year. Considering this issue through the prism of the average number of transactions in

Chart IV.2-3.

Average prices of lands for residential and farmstead development in the communes of the Krakow, Myślenice and Wieliczka districts (PLN/m²)



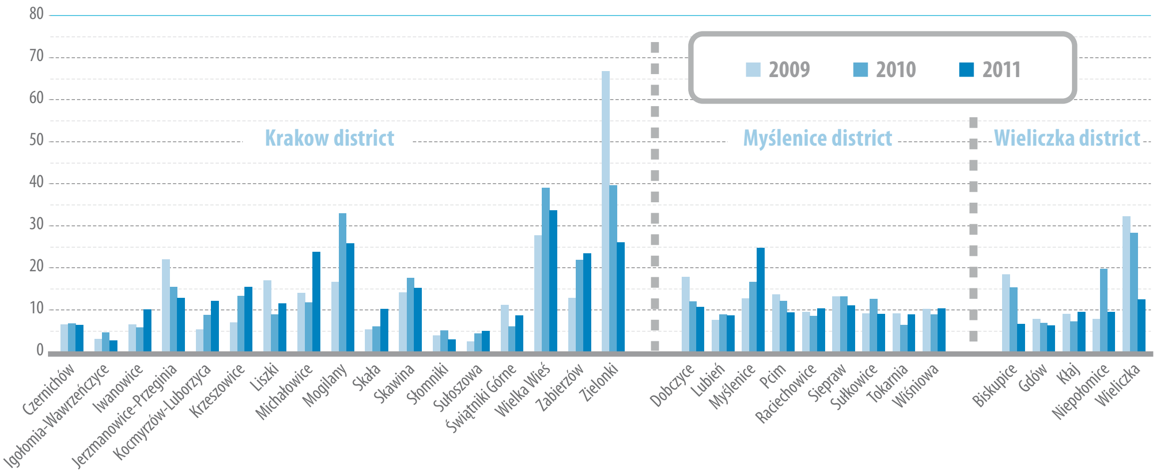
Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

various districts, the most severe slowdown affected the Krakow district, while the Wieliczka and Myślenice districts maintained their activity levels from the previous year.

In recent months, the prices of properties did not point to any particular tendency. Some communes noted insignificant rises, while others suffered from slight drops. This situation refers to both the segment of lands assigned for residen-

Chart IV.2-4.

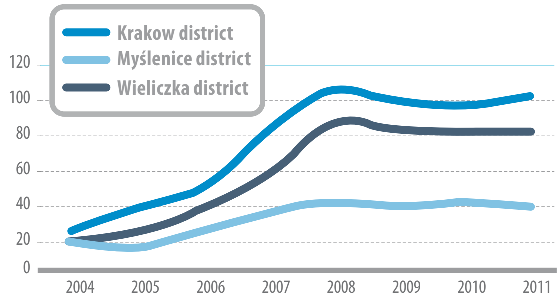
Average prices of arable and green lands in the communes of the Krakow, Myślenice and Wieliczka districts (PLN/m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart IV.2-5.

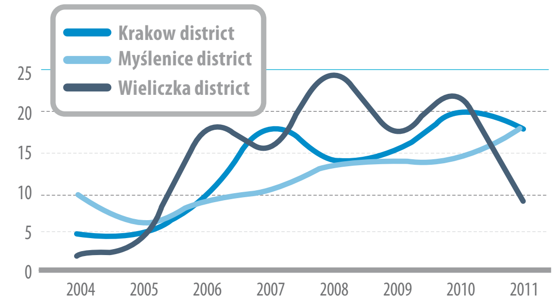
Average prices of construction lands in districts (PLN/m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości– mrn.pl

Chart IV.2-6.

Average prices of arable lands in the districts (PLN/m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości– mrn.pl

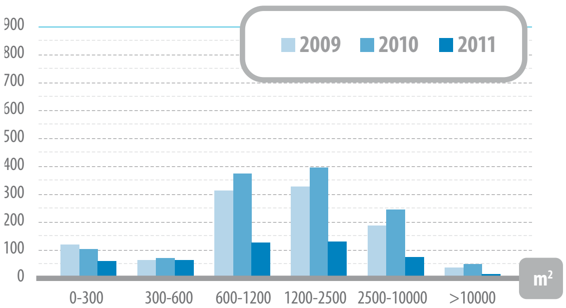
tial construction and lands where the execution of construction investments is not possible. In the segment of commercial lands, the number of transactions is very small, and the price spread is quite large, so measures aimed at achieving average or aggregate values may lead to false conclusions.

The greatest rise in the prices of lands assigned for residential construction was registered in the communes of Liszki, Skawina, Kocmyrzów-Luborzyca, Dobczyce, Biskupice and Niepołomice, i.e. in locations that were mostly situated within some distance from Krakow, but not quite peripheral. The drop in the prices of construction plots most severely affected the communes of Skała and Świątniki Górne. Arable and green lands went up at the highest rate in the communes of Michałowice, Myślenice, Liszki, Krzeszowice and Skała. The greatest drop in the prices of lands not associated with construction took place in the Wieliczka commune.

When considering individual districts, a slight rise in the prices of lands assigned for housing was noted in the Krakow district. In the Wieliczka district the prices continued at the same level, and the Myślenice district observed a drop of several per cent.

Chart IV.2-7.

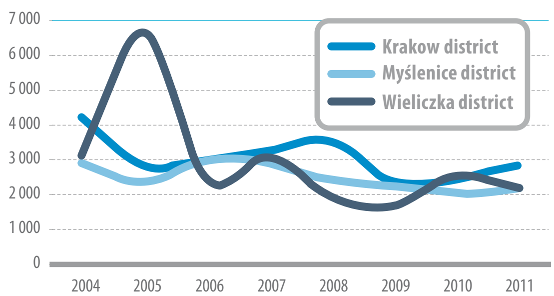
Number of transactions in area groups – lands for residential construction



Source: Instytut Analiz Monitor Rynku Nieruchomości– mrn.pl

Chart IV.2-8.

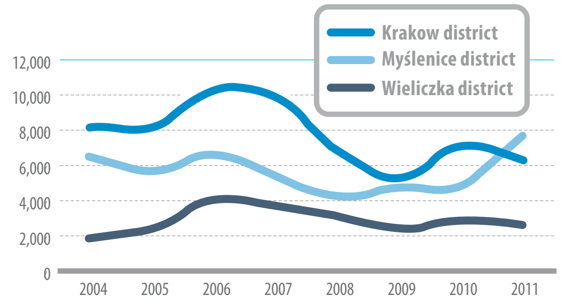
Average size of plots for residential construction in the districts (m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości– mrn.pl

Chart IV.2-9.

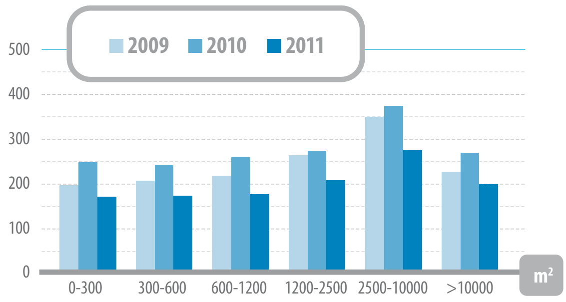
Average size of arable or green plots in the districts (m²)



Source: Instytut Analiz Monitor Rynku Nieruchomości– mrn.pl

Chart IV.2-10.

Number of transactions in surface area groups – arable and green lands



Source: Instytut Analiz Monitor Rynku Nieruchomości– mrn.pl

As far as arable and green lands are concerned, the markets of all districts are currently in different phases and are characterised by various tendencies. After a rise in the years 2009-2010, in the Krakow district, there was a drop of prices by a few per cent, which will probably continue for at least several months. In the Myślenice district, the prices have been consistently rising since 2005, but this tendency will probably not last long, because the average prices in this area have reached a level similar to the prices of the Krakow district. The Wieliczka district is characterised by the least stable market, as there are sharp rises and drops in prices at approximately year-long intervals. The drop in 2011 reached a record low, and the average price fell from over PLN 20 to only PLN 9.
In recent years, the average size of sold construction plots in the three analysed districts has continued at a similar level and ranged from 1,800 to 2,800 m^2. Plots with a medium size of 1,200-2,500 m^2 were sold most frequently, but in the last year, smaller plots of 600-1,200 m^2 also enjoyed considerable interest, reaching figures approximate to the most numerous medium group.
Arable and green plots were characterised by a greater diversification of the surface area. In the Krakow and Wieliczka districts, the average size of plot sold reached 60-80 are, while in the Myślenice district, it was much smaller at less than 30 are. When considering the entire examined area in general, the greatest number of transactions concerned lands with a surface area ranging from 25 are to 1 ha.

Summary

- In 2011, the market of lands in the suburban zone continued to stagnate.
- Despite the lasting high supply of lands, sellers reluctantly decided to adjust the prices.
- Developers were not interested in the establishment of the land banks, and the buyers, mostly individual investors and small economic entities, purchased properties for their own needs.
- In the context of the continuing low purchasing power of society, capital investments in land were rarely made.
- Arable lands seemed particularly attractive, as individual investors considered them as long-term capital investments.

Map of the Krakow districts

ADMINISTRATIVE BOROUGHS

Area	Number	Name
Śródmieście	I	Stare Miasto/Old Town
	II	Grzegórzki
	III	Prądnik Czerwony
Krowodrza	IV	Prądnik Biały
	V	Krowodrza
	VI	Bronowice
	VII	Zwierzyniec
Podgórze	VIII	Dębniki
	IX	Łagiewniki – Borek Fałęcki
	X	Swoszowice
	XI	Podgórze Duchackie
	XII	Bieżanów – Prokocim
	XIII	Podgórze
Nowa Huta	XIV	Czyżyny
	XV	Mistrzejowice
	XVI	Bieńczyce
	XVII	Wzgórza Krzesławickie
	XVIII	Nowa Huta