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KRAKOW REAL ESTATE MARKET 2012

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MEASURES USED IN POLAND

1 ar = 100 sqm = 0.01 hectare (ha)

1 hectare = 10 000 sqm = 100 ars (ar)

The extended version of the Krakow Real Estate Market 2012 on the housing and land market is to be published on www.krakow.pl in the business tag in May 2013.



REAL ESTATE MARKET 2012

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DEAR READERS,

Yet again we present you with the publication entitled "Krakow Real Estate Market", which constitutes one of the informational and statistical compilations prepared every year by the City Development Department of the Krakow Municipal Office. The analysis of subsequent editions allows us to follow the dynamics of changes occurring in our city's real estate market, both concerning commercial and residential buildings.

In accordance with Krakow's development strategy, our city promotes the development of modern technologies and specialised services, thus attracting new investments, both domestic and international ones, every year. In 2011, in order to make life easier for the investors, the municipal authorities created the Investor Service Centre, operating within the structures of the Krakow Municipal Office at ul. Bracka 1, right off the Main Square. This unit is to provide assistance to individuals and companies interested in locating their enterprises in our city. The present publication serves a similar function. It includes data and information which may prove useful in the investment process and business operations in Krakow. We describe in it the most significant changes in the commercial real estate market (which includes *inter alia* offices, hotels, warehouses and commercial spaces) which took place in the last year.

We have made every possible effort for our publication to constitute an exhaustive source of knowledge on the real estate market, and we do hope that it will meet your expectations.

Elżbieta Koterba

Deputy Mayor of the City of Krakow
for City Development

1. ABOUT KRAKOW

Krakow is the second largest city in Poland, the capital of the Lesser Poland region and one of the most attractive cities in Central Eastern Europe. Its possibilities and potential have been valued by both tourists and investors for years. From the investors' point of view, the most important assets of Krakow include its demographic and scientific potential, qualified work force, the Special Economic Zone, a large local market, encompassing both Lesser Poland and the nearby Upper Silesia, as well as good road, rail and air connections. Apart from that, the city can boast rich culture and art, various forms of leisure, the Old Town – entered into the UNESCO's World Heritage List – as well as other attractions which draw millions of tourists every year.



Inhabitants and students

Officially, Krakow is populated by almost 760 thousand people, although in reality their total number, including unregistered individuals and students, is much higher. Thanks to constant migration to the city, the number of inhabitants continues to grow. Krakow is the city of the young – 69% of its dwellers are not above 45 years of age.

Additionally, at least tens of thousands of people, mostly students, constitute temporary inhabitants. The city is one of the most important academic centres in the country and the seat of the National Science Centre. In 2012, over 208 thousand students studied at its 23 different institutions of higher education, including 59 thousand students in technology departments, 7.5 thousand in language departments and almost 17.5 thousand in economy and finance departments. Every year approximately 50 thousand college graduates conclude their education and a large percentage starts their careers in Krakow.

Neighbouring municipalities are thriving near Krakow: approximately 1.5 million people inhabit peri-urban areas, and around 8 million live within a 100 km radius.

Transport

The city is situated 275 km to the south of Warsaw by the A4 motorway and near the crossing of two traffic routes connecting the Baltic Sea with the Balkans and Western Europe with Eastern Europe. Numerous railways operate in the city, as well as John Paul II International Airport Krakow-Balice, which is the largest regional airport in Poland. In 2012, the airport served almost 3.5 million passengers. Krakow Airport operates direct routes to 65 airports in Poland and Europe. Transport in Krakow is based around a well-functioning network of tramway and bus lines.

Culture and tourism

Krakow is known as the capital of culture. The city is home to a number of different cultural institutions and several dozen festivals are organised each year, attracting crowds of both local and international tourists. The city's list of attractions will soon be extended to include the New Krakow Arena and the ICE Krakow Congress Centre, which are being developed in response to the growing interest in the city as a business tourism destination.



Krakow is listed among the most visited places in Poland and Europe, and is regularly placed at the top of competition ranking lists concerning attractiveness to tourists. In 2012, it was visited by almost 9 million tourists.

Modern economy

Krakow's economy brand, KRK2B, is based upon such values as: dynamics, creativity and innovation. Their expansion is supported by academic and scientific institutions which have created research and development centres, by advanced technologies, perfection, technology transfer and clusters of companies, schools and research entities collaborating in such fields as R&D. This is compatible with the Development Strategy of the City of Krakow, which emphasises the importance of collaboration of the local government, science and business. In recent years the specialised services and high technology sector has developed most dynamically, which was acknowledged by Tholons' international ranking of locations for outsourcing, where the capital of Lesser Poland was deemed the capital of modern services in Central Eastern Europe. Qualified workers, friendly business environment and clarity of the Polish law and finance system were among qualities most appreciated by the jury. As many as 26 thousand people work in this sector in Krakow, which is 25% more than in Warsaw.

A Special Economic Zone functions within the city. It occupies 80 ha, more than half of which is developed. New companies will have access not only to attractive greenfield lands, but also to already developed office space and public aid. The zone is destined



for almost all companies from the traditional industry sector and those from service sectors, especially information services, R&D, bookkeeping and accounting, technological research and analyses, as well as call centres.

Investor Support Center (COI) at the Krakow City Council

It was created in 2011 and operates at 1 Bracka Street. It promotes Krakow's investment offer and, most importantly, supervises the investment process which lies within the competence of the local government. COI also provides investors with information and substantive help regarding the city's investment policy, the current local law and the basic legal conditions. It also monitors the investment process. Moreover, it organises meetings and field trips and creates new investment offers based on information gathered from different departments of the Municipality of Krakow.

In 2012, its employees met with or provided information and support in the investment processes to over 200 companies. This has been connected to large interest in the city as an investment area, both in the field of service centres and development investments.

“Nowa Huta of the Future”

The “Nowa Huta of the Future” project is the largest opportunity for investment in Europe. The 5,500 ha area of Nowa Huta provides great opportunity for growth aimed at knowledge-based modern economy. In July 2012 the “Nowa Huta of the Future” international competition was adjudicated. Its aim was to develop plans of revitalisation of industrial wasteland, to indicate the direction of this development and to open the area of Nowa Huta – the former steelwork safeguard zone – to future investments, including investments in modern business services. Thanks to the project, the district of Nowa Huta can become home to innovative enterprises, where business coexists with housing and recreation.

Study of the Conditions and Directions of Spatial Management in the City of Krakow

In 2013, a change is planned in the Study of the Conditions and Directions of Spatial Management in the City of Krakow, the most important spatial planning document of the municipality. It determines the urban policy which will allow for further growth of Krakow as an open, innovative and creative city. The plan indicates areas for development and investment, the planned communication layout along with three underground lines, valuable natural areas and areas of cultural heritage. The document also thoroughly describes strategic urban projects: “Balice”, which includes a development of trade fair, tourist and hotel facilities based around the Krakow Airport; the business- and people-oriented “Nowa Huta of the Future” project; and the “river-front” project, which introduces a plan for creating a river park and various river front facilities. The study is to establish the direction of Krakow's development for the next 20 years.

II. OFFICE MARKET



In 2013 Krakow office market is expected to witness limited volume of delivered supply. In upcoming quarters of 2013 predicted stable pace of absorption along with declining vacancy rate may put the downward pressure on the effective rents and tenants in more advantageous position. Shortage of available supply should encourage, both local and international, developers to launch new office investments in Krakow, however number of new projects commencements will be contingent upon loans granting requirements.



Supply

At the end of 2012 the total stock of modern office space for rent in Krakow was estimated at a level of over 515,800 m², which ranks the city as the second largest office market in Poland. Krakow remains the biggest and the most dynamically developing office market amongst the regional cities in Poland. Throughout the last 12 months office supply in Krakow increased by some 11%, due to the completion of six new projects, comprising a total of 50,600 m² of office space. All six of these schemes were located in non-central areas of the city.

Due to the concentration of development in Krakow's centre, new office projects are being developed mostly outside of the city centre. Offices located in the core centre constitute only 19% of the market total stock, whereas the majority of office space is scattered in non-central areas. During the dynamic local market expansion noted within the last seven years, three main office space concentration areas have developed. These include: the southern part of Prądnik Biały and Prądnik Czerwony districts, the north-western part of Podgórze district and the area along Armii Krajowej Avenue, covering the south-eastern part of Bronowice district.

In December 2012 seven schemes with a total rentable office space of 48,200 m² were at the construction stage. More than a half of this pipeline supply should be delivered in 2013 with completion of the remaining projects due in 2014.

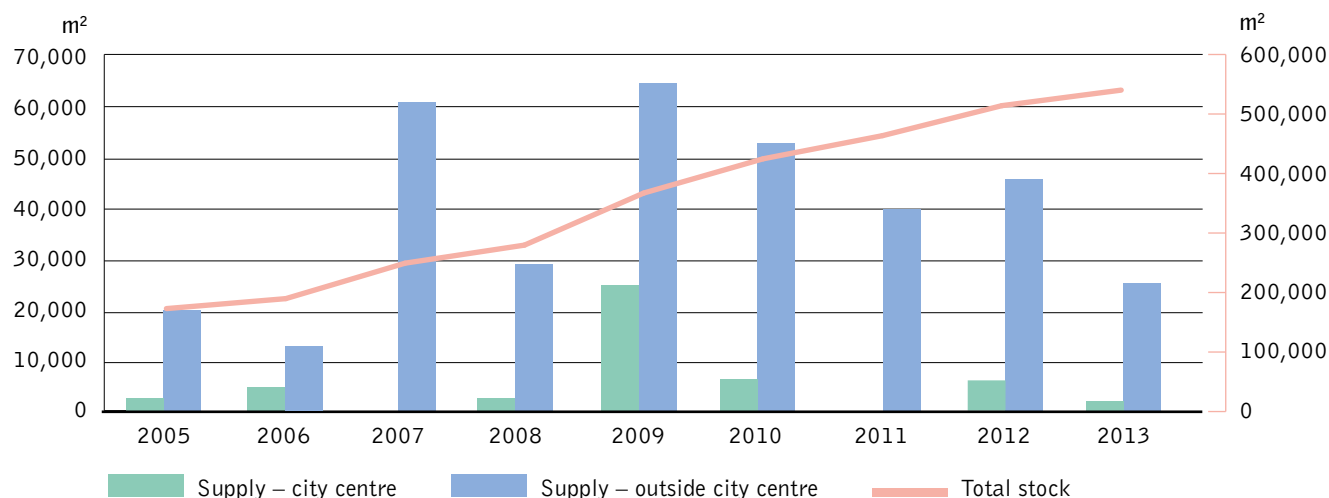
Table II.1
Office Projects at the Construction Stage
in Krakow (Q4 2012)

Project	Address	Total rentable office space (m ²)
Alma Tower	Pilotów Street	10,000
Dekerta office building	Dekerta 18 Street	1,800
Bonarka 4 Business (D building)	Puszkarska Street	8,700
Browar Lubicz-Pałac	Lubicz Street	1,500
Nautilus	Jana Pawła II Avenue	2,000
Quattro Business Park III	Bora-Komorowskiego Avenue	12,200
Skanska	Kapelanka Street	12,000

Source: Knight Frank

A significant decrease in the vacancy rate and high levels of interest shown in Krakow from foreign investors encourages developers to commence office schemes, which for the past few years remained at the planning stage. It should be mentioned however, that banks

Chart II.1 Annual Supply of Modern Office Space in Krakow (2005-2013¹)



¹ forecast including projects under construction

Source: Knight Frank

are still exercising caution when evaluating new office projects; hence loans for office developments are granted only to experienced developers presenting well-planned schemes.

Demand

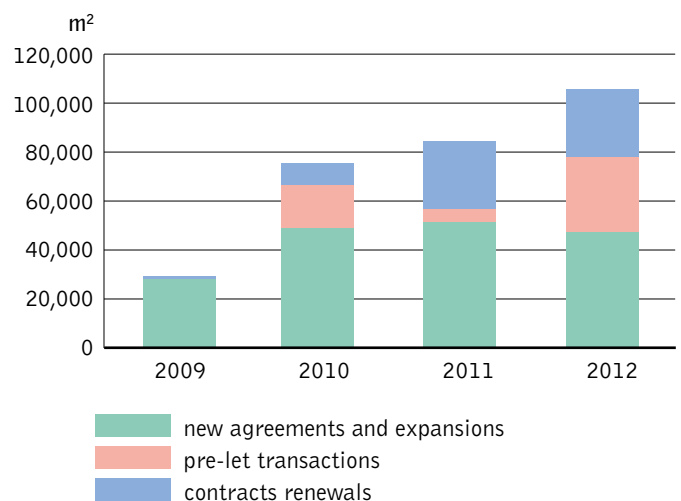
Demand for office space in Krakow is generated mainly by companies from within the BPO and IT sector. Among the numerous enterprises, which entered the market within the last 10 years, the biggest include: ABB, Bayer, Capgemini, Electrolux, Google Operations Centre, IBM Poland and Nokia Siemens. Krakow's potential as a BPO centre remains unexhausted. The number of leases signed in 2012 as well as plans revealed by new investors to enter the market indicate the high level of interest evident in Krakow.

Krakow remains the biggest BPO centre in Poland with the number of employees in the sector exceeding 23,000 and the number of BPO centres amounting to 66. In a recent report by Tholons and Global Services, "Top outsourcing cities in 2012" Krakow was ranked the 11th best location for an investment in the BPO sector, which makes the city one of the two highest-rated European cities.

Since 2010, a systematic increase in the total transactions volume has been noted in Krakow. It should also be noted, however, that a significant share of the total space leased constitutes contracts renewals. The volume of net demand (defined as new transactions,

pre-let contracts and expansions combined) recorded in 2012 amounted to more than 78,300 m² and in comparison to 2011 grew by 37%.

Chart II.2
Structure of Transactions Concluded in Krakow 2009-2012



Source: Knight Frank

Table II.2
Employment and Number of BPO centres (BPO/ITO, SSC, R&D) with Foreign Capital in the Largest Polish Cities (Q3 2012)

City	Number of BPO centres	Employment
Krakow	66	>23,000
Warsaw	61	15,000-20,000
Wrocław	45	15,000-20,000
Łódź	39	9,000
Tricity	33	9,000
Silesia agglomeration	32	8,000
Poznań	27	6,000

Source: Association of Business Service Leaders in Poland

Table II.3
Largest transactions concluded in 2012

Project	Occupier	Office space leased (m²)	Type of agreement
Centrum Biurowe Kazimierz	State Street	12,600	renewal
Enterprise Park	Delphi Poland	8,400	pre-let
Galileo	IBM	5,000	renewal
Green Office (C building)	Motorola Solutions	4,500	pre-let/expansion
Enterprise Park	Cisco Systems Poland	3,800	pre-let
Edison	State Street	3,100	renewal
Alma Tower	Alma	5,000	pre-let
Wielicka 22	Assecco	2,800	new

Source: Knight Frank

Demand for office space in Krakow comes mainly from IT companies and enterprises from the corporate finance and professional services sectors. Examples of the largest transactions concluded over the course of 2012 in Krakow are presented in a table II.3.

Vacancy

2012 was another year of declining vacancy rate in Krakow. In spite of the notable amount of new supply delivered to the market within the last twelve months the volume of available office space for rent dropped in comparison to year end in 2011 by 39%. By the end of 2012 unleased office space in Krakow reached a level of some 25,600 m², which constituted 4.9% of the market's total stock. Considering the space absorption noted in Krakow office market, it is expected that in 2013 the vacancy rate should remain at a comparable level.

Rents

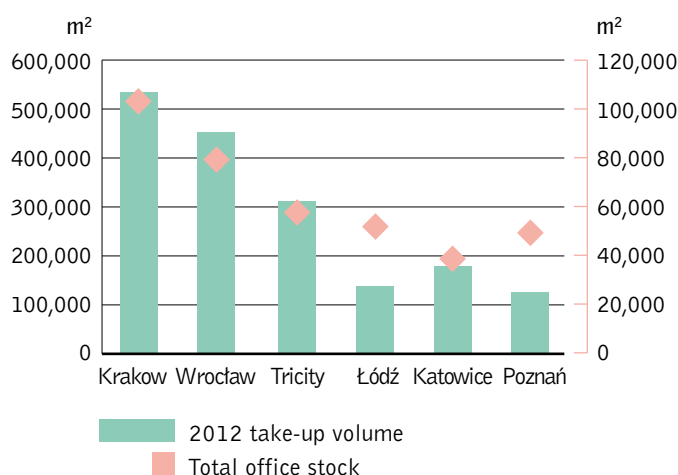
Since 2009 the average asking rent in Krakow has been oscillating around the level of some EUR 14/m²/month. Prime premises located in class A office buildings are offered for EUR 13.5-14.5/m²/month whilst asking rents for class B office space range between EUR 10 and 13/m²/month.

Effective rents remain lower than the offered rents by 10-15% while rent-free periods granted to tenants vary on average from 4 to 6 months. Due to the limited volume of space available and the stable pace of space absorption predicted in the forthcoming year rents in Krakow should remain stable.

Krakow Office Market versus Other Polish Cities

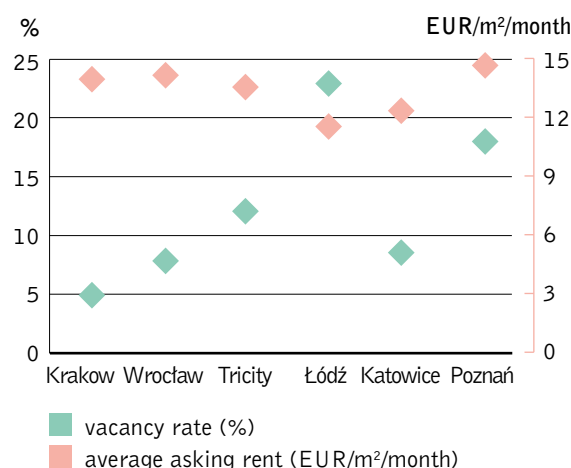
Krakow leads the regional cities in terms of the size of modern office supply. At the end of 2012 the total office stock in Krakow stood at the level of 515,800 m². In comparison, Wrocław, the second largest regional office market in Poland, was estimated at the level of 395,100 m².

Chart II.3 Office Stock vs. Take-up Volume in Main Regional Cities in Poland (Q4 2012)



Source: Knight Frank

Chart II.4 Vacancy Rates and Weighted Average Asking Rents in Main Regional Cities in Poland (Q4 2012)



Source: Knight Frank

Analysis of developers' activity indicates that Krakow is the city in which the highest volume of office space construction began in 2012. Throughout the last twelve months development of 46,700 m² of office space was launched in Krakow. Moreover, at the end of 2012 Krakow was the only office market with a vacancy rate below 5%. At the same time Krakow noted the highest level of occupier activity in comparison to other regional markets.

III. WAREHOUSE MARKET



Krakow is one of the smallest areas of warehouse concentration in Poland (the only smaller area of significance being Szczecin). The Krakow region includes the city and its neighbouring towns such as: Olkusz, Skawina and Modlniczka. Krakow is also one of the most expensive logistics regions (except for Warsaw's Zone 1). The region is well situated with roads of national and European significance passing through the city. Moreover, the A4 highway and S7 expressway also pass through the region and construction of the next sections of the S7 will connect Krakow to Warsaw resulting in much lower journey times. Air transport is also well organized, due to the close proximity of the Krakow-Balice International Airport. These infrastructural attributes will bring significant opportunities to establish the Krakow region as a strong logistic hub in a future.



Special Economic Zones are one of the major factors adding to the attractiveness of the particular regions. Krakow is located within the Krakowska Special Economic Zone, where business activities can be conducted on special, preferential terms. State aid may be granted for setting up a new investments or creating new workplaces. On the 31st of January 2013 the Krakowska Special Economic Zone was enlarged by 90.5 hectares and thus the entire area now amounts to 628 hectares. The extension of the Krakowska Zone may improve the economic growth.

Supply

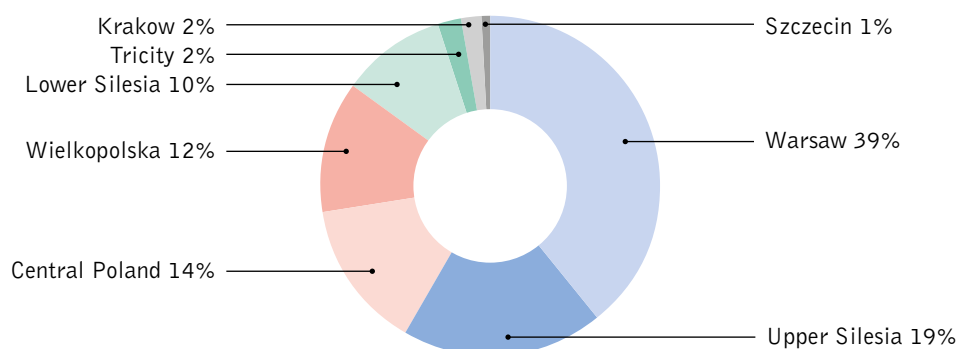
At the end of 2012 modern warehouse stock in Krakow was estimated at 141,300 m², representing barely 2% of the total logistic volume in Poland. Krakow's market is dominated by the two largest developers in the country, Goodman and Panattoni, who have already delivered almost 50% of the entire existing warehouse supply in the region. Local developers, such as: Małopolska Agencja Rozwoju Regionalnego (MARR) and MK Logistic have contributed to the remaining stock.

Over the course of 2012 three warehouse buildings of a total area of 18,800 m² were completed in Krakow within one logistic complex – Krakow Airport Logistic Centre. Thanks to this extension the total area of the project increased to a level of 53,700 m².

At the end of 2012 there were no warehouse schemes under construction in Krakow. It is expected that in 2013 new warehouse supply will be realized as either built-to-suit (BTS) schemes or projects built speculatively, yet only after securing a pre-let contract for the majority of the space. These expectations are not only for Krakow, but for all logistics markets across Poland.

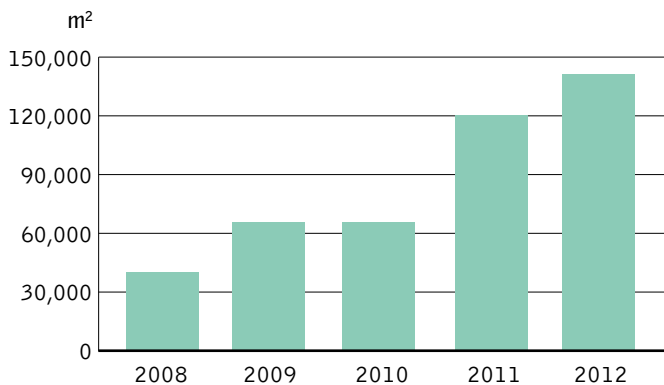
Developers' land banks, secured for new warehouse projects in the Krakow region will enable them to build approximately 208,000 m² of new logistic space. Almost 50% of the area at the planning stage is to be located within the Krakow Airport Logistic Centre, with another 11% and 9% in MARR Business Park and BIK's project respectively. Remaining planned projects will be constructed by RB Logistics, MK Logistic and Panattoni's as extensions of already existing complexes.

Chart III.1 Warehouse Stock in Poland by Location (end of 2012)



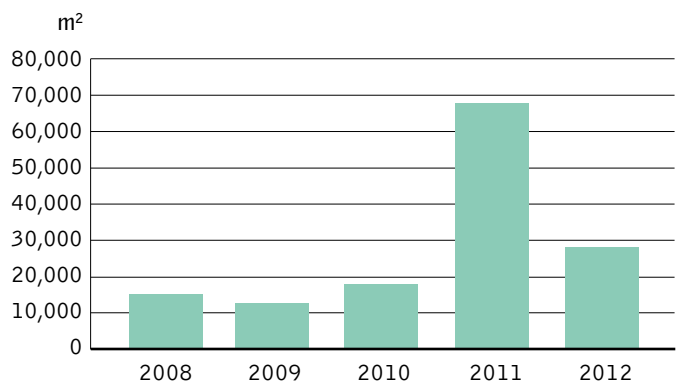
Source: Knight Frank

Chart III.2 Warehouse Stock in Krakow



Source: Knight Frank

Chart III.3 Volume of Annual Demand in Krakow



Source: Knight Frank

Table III.1 Selected Warehouse Transactions in Krakow in 2012

Project name	Developer	Tenant	Leased space (m²) / Lease type	Date of transaction
Centrum Logistyczne Krakow II	BIK	G4 Garage	3,300 / new	Q1 2012
Centrum Logistyczne Krakow II	BIK	Premium Distributors	2,800 / renegotiation	Q1 2012
Krakow Airport Logistics Centre	Goodman	Eurodruk-Krakow	3,900 / pre-lease	Q2 2012
Krakow Airport Logistics Centre	Goodman	DB Schenker Logistics	4,400 / pre-lease	Q3 2012
Krakow Airport Logistics Centre	Goodman	Royal Canin	3,500 / pre-lease	Q3 2012

Source: Knight Frank

Several projects at the planning stage at the end of 2012 possess building permits. Nevertheless developers have postponed decisions to commence the developments until they find tenants for whom they can build a BTS project or tenants who will lease a significant share of the building's space.

Since the beginning of 2012 over 5,200 m² of the total leased space in Krakow has been renegotiated, while another 21,500 m² constitutes new agreements. Four contracts were signed as pre-leases and approached nearly 14,400 m² in total. The structure of the warehouse space absorbed in 2012 in Krakow indicates that companies operating in the production, distribution and logistics sectors were the most active.

Demand

Tenants in the Krakow area leased almost 26,700 m² of warehouse space in 2012, which constituted almost 40% of the space taken-up in the previous record-breaking year in respect of annual demand. Relatively low demand is mirrored by a limited volume of projects offering available space.

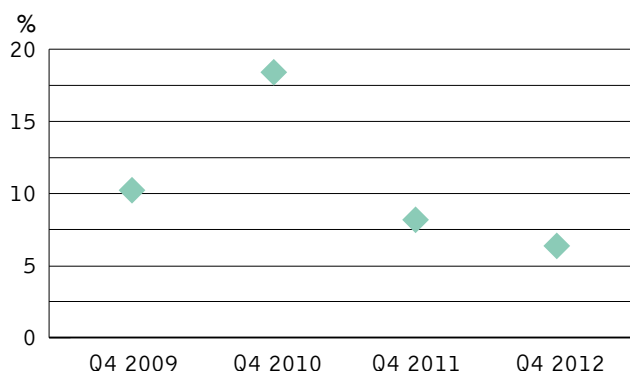
Available Space

The vacancy rate noted in Q4 2012 in Krakow was one of the lowest among the warehouse concentration areas in Poland and approached some 6.3% compared to 8.1% recorded in the same



period of 2011. This slight decline is mainly caused by the gradual absorption of available space in speculative projects and completion of fully-rented projects. Considering that new warehouse supply will rely on tenants' specific needs a further systematic decrease of vacancy rate in Krakow is expected in the forthcoming quarters.

Chart III.4
Vacancy Rate in Kraków (year-on-year)



Source: Knight Frank

The available warehouse space in Krakow was scattered amongst 4 projects and amounted to some 8,900 m². The highest share (47%) of the space offered to rent was located in Business Park Cracovia (4,200 m²), with another 1,700 m² in Krakow Airport Logistic Center, 1,600 m² in MARR Business Park and 1,400 m² in Olkusz Logistic Centre.

Rental Rates

In terms of lease costs, Krakow remains the second most expensive logistics location in Poland (following Warsaw's Zone 1). Monthly asking rents in Krakow for modern warehouse space have remained broadly stable since last year and at the end of Q4 2012 ranged from 4 to 4.5 EUR/m². Limited available speculative stock and no new schemes under construction at the end of 2012 may result in upward pressure on effective rents in the next year.

Monthly asking rents for warehouse space depend on a number of factors: a project's location (access to a good infrastructure connections), technical specification (interior height, column spacing, number of docks, floor loading), lease period and the size of the space (a longer lease term and larger leased area translates into lower effective rents).

Forecasts

In the upcoming quarters of 2013 logistics supply in Krakow will be mostly realized as a BTS schemes. Due to the modest volume of available space in speculative projects, it is anticipated that the total demand for warehouse space will achieve a similar level than noted in 2012. Taking into account that new logistics supply will rely on tenants' specific needs a further systematic decrease of vacancy rate in Krakow may occur in the forthcoming quarters. No significant increase of the asking rents in the region is expected, however owing to the limited offer of speculative space, in a single projects renting may result in an upward pressure.

IV. RETAIL MARKET



The rate of retail space absorption is predicted to remain stable in the forthcoming quarters of 2013. International brands new to Poland are expected to enter the market and retail supply in Krakow should increase with the completion of Galeria Bronowice. Forecasts indicate that rents for retail premises in shopping centres should remain stable, especially in the prime locations. Vacancy rate should fluctuate around the current level.

Supply

At the end of 2012 the total supply in Krakow retail market had reached the level of nearly 633,000 m². Retail stock in Krakow is formed by diversified retail formats, including: 2nd and 3rd generation shopping centres, retail parks, factory outlets, retail warehouses and DIY stores, Cash&Carry and convenience shopping centres. Shopping malls constitute the majority (63%) of Krakow's existing retail supply. Retail warehouses account for 14%, of which 57% is made by DIY stores. Retail parks hold a 10% share in the total stock, whereas factory outlets make 7% of the Krakow market. Cash&Carry stores and convenience shopping centres constitute 5% and 1% of the total stock respectively.

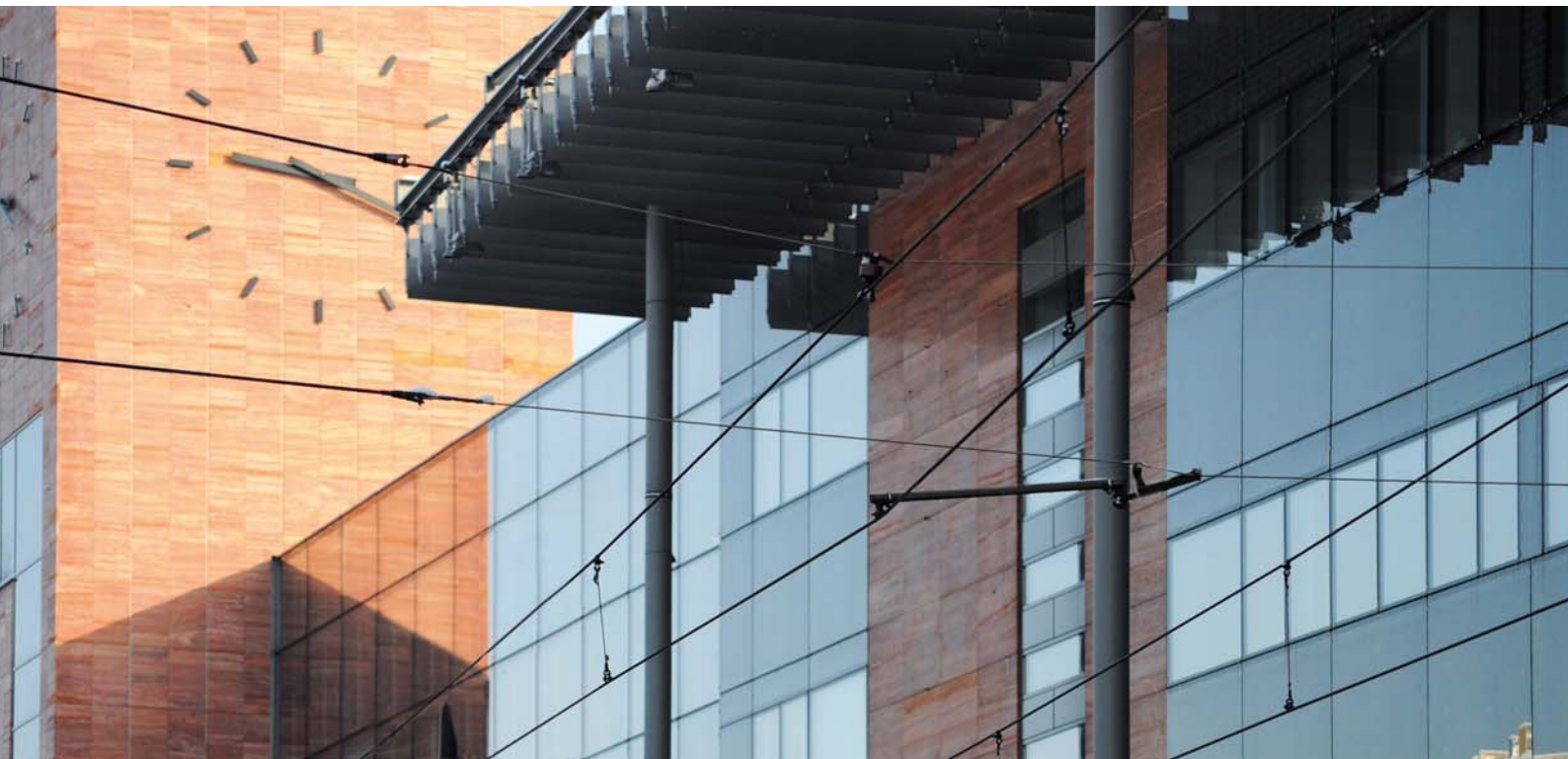
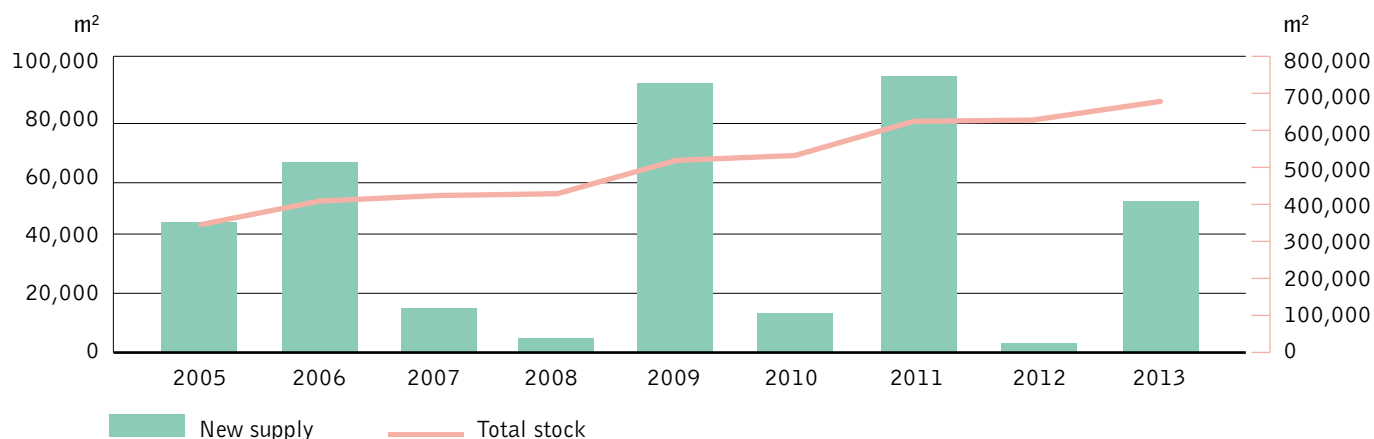
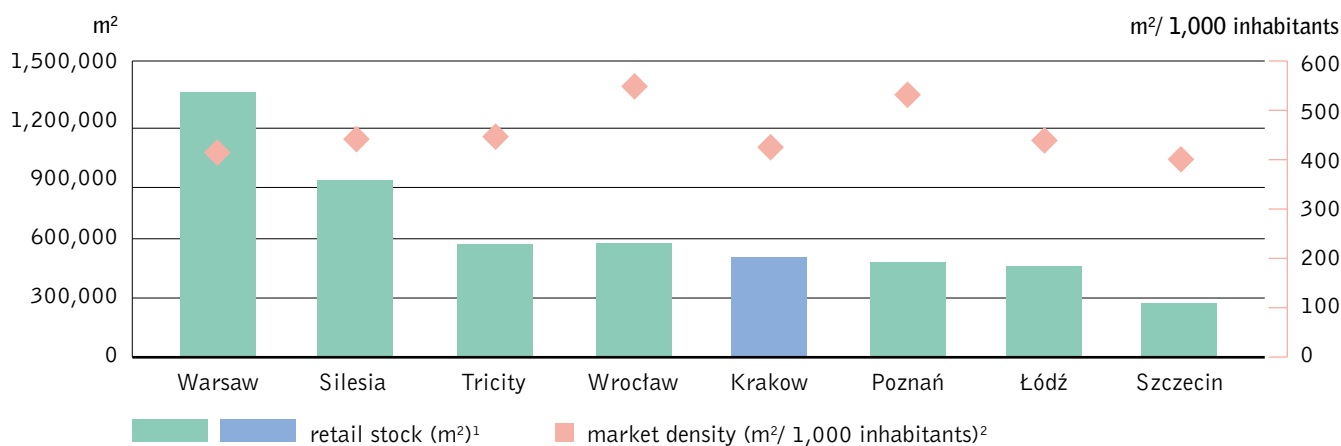


Chart IV.1 Annual supply and retail stock in Krakow (2005-2013f)


¹ forecast including projects under construction

Source: Knight Frank

Chart IV.2 Market saturation in biggest Polish agglomerations (Q4 2012)


¹ including shopping centres, factory outlets and retail parks

² for agglomerations

Source: Knight Frank

The retail market in Krakow is also very well developed with regard to the high streets. The main chain stores and other top-end brands locate their showrooms along the busiest streets such as Floriańska, Szewska and Grodzka Streets. Rental levels in the most attractive part of Krakow, including Planty Garden Ring and the Main Market Square (Rynek Główny) reach as much as 100 EUR/m²/month. This part of the city is characterized by

dense pedestrian traffic, made of tourists, students and Krakowian residents. The largest number of premises in the core centre are occupied by clothes and shoes stores as well as restaurants, cafés and pubs, which compliment the shopping centres.

Retail space saturation in Krakow remains at relatively low level. At the end of 2012 it was estimated at 427 m² of retail space per

Table IV.1 Selected Retail Projects in Krakow (Q4 2012)

Project	Developer/ Owner	GLA (m ²)	Completion date
Krakow Plaza	Plaza Centers Poland	31,300	2001
M1	MRE METRO Group Real Estate Management Polska	52,200	2001/2011 (extension)
Futura Park	ECE Projektmanagement	64,300	2006
Galeria Kazimierz	GTC	36,200	2005
Bonarka City Center	TriGranit Development	91,000	2009
Zakopianka Retail Park	Carrefour Polska	61,090	1998/2000 (extension)

Source: Knight Frank

1,000 inhabitant¹. This low density rate indicates a high potential for retail market expansion. The biggest and the most recognizable existing retail projects in Krakow include shopping centres which are located at the city's arteries junctions. Selected shopping malls in Krakow are presented in a table IV.1.

In 2012 only one retail project was delivered to the local market. Dekada convenience shopping centre, situated on Krakowska Avenue, was completed in the last quarter of 2012. The scheme added 3,350 m² to the local market. Additionally, at the end of 2012 one retail scheme – Galeria Bronowice remained at the construction stage. Upon completion the project will supply the market with an additional 51,000 m² of modern retail space. Another retail scheme comprising some 42,000 m² of retail space was identified at an advanced stage in the planning process. Construction of Serenada shopping centre, located in Prądnik Czerwony district, should be started in the first quarter of 2013. As the developer has already obtained a building permit.

Rents

Monthly rents in shopping centres in Krakow vary in regard to the location within the mall, the type of tenant, the lease period and the size of the rented space. Prime units of up to 100 m² are offered for an average of 40-60 EUR/m²/month. Premises of a larger size are rented for 15-40 EUR/m²/month. Rental levels in hypermarkets and DIY stores reach on average 5 to 10 EUR/m²/month. Due to low retail space density and a limited volume of supply in the

pipeline, asking rents are expected to remain stable in Krakow over the course of 2013.

Demand and Vacancy Rate

Absorption of retail space in Krakow remains stable, although the uncertain economic situation has led to both Polish and international occupiers carefully analysing new projects and their locations before signing lease agreements. Therefore, in some cases the commercialization process may be noticeably prolonged. Prime projects located in the most attractive locations, with a good reputation in the market remain popular among potential tenants. Despite the different levels of volume of space leased recorded in particular shopping centres, the vacancy rate in Krakow remains at a level below 5% of the total stock.

In spite of the unfavourable economic indicators, retail space absorption is expected to remain at comparable levels in the forthcoming months even though international and domestic brands have confirmed their plans to expand their distribution channels. Retailers, which have already declared their development plans for new stores in 2013 include GAP, Deichmann, Toys“R”Us, Marc O’Polo, Alma Market, W. Kruk, Ryłko, Media Expert and Dr. Irena Eris Institute. In addition, there are a number of international retail chains planning to enter the Polish market in 2013, amongst others: Abercrombie & Fitch, Banana Republic, Disney, All Saints, Superdry and Debenhams.

¹ Number is calculated for Krakow agglomeration and includes total space of shopping centres, factory outlets and retail parks

V. HOTEL MARKET



Krakow is a major and one of the most recognizable tourist destinations in Poland. It is also a thriving centre for business and education. These factors accompanied by the wide selection of the overnight accommodation contribute to a continuous increase in the number of visitors. According to preliminary data released by Małopolska Tourist Organisation in 2012, the total number of visitors coming to the capital of the Małopolska voivodship reached almost 9 million and grew by 4% compared to 2011. Domestic tourists constituted the majority of visits (74%), while foreign guests accounted for the remainder. Total annual receipts from both international and domestic visits were estimated at a level of PLN 3.5 billion. Analysis of all inbound travellers indicates that tourist visits accounted for 77% of all visits.



Krakow provides the largest number of officially categorised hotels when compared to other cities in Poland. The hotel market comprises the most recognizable and the largest worldwide hotel brands (Hilton Garden Inn, Best Western International, Vienna International, Accor Group) as well as local Polish brands and boutique hotels. In December 2012 in Krakow, there were 135 rated hotels with a total of 8,086 hotel rooms offering nearly 15,000 beds. Additionally, one hotel was undergoing the classification procedure. Three-star hotels had the largest market share accounting for 55% of all hotel rooms in Krakow.

The majority of hotels in Krakow are small-scale projects containing less than 100 rooms. Nevertheless, several large-scale hotels offering more than 200 rooms can be found: Chopin Hotel***, Wyspiański***, Galaxy****, Novotel Krakow Bronowice**** and Sheraton Krakow Hotel*****.

Additionally to hotels, several other types of overnight accommodation can be found in Krakow e.g. youth hostels or guest houses. They provide strong competition to lower-end hotels, mostly due to their comparable standard and low prices. At the end of 2012 the number of beds in collective tourist establishments other than hotels was estimated at 9,400.

In April 2012, Accor Group opened two economy hotels – the Ibis Krakow Stare Miasto** and the Ibis Budget Krakow Stare Miasto*. The schemes are situated in the very centre of Krakow on Pawia Street and feature 302 rooms with a total of 418 beds.

New Hotels in Krakow

The dynamic development of the hotel market in Krakow is mirrored by the number of schemes currently in the pipeline. At the end of 2012 seven hotels were under construction and several more were at the planning stage.

In June 2012 a Norwegian company – Genfer Hotels – started construction of a three-star Puro hotel on Pawia Street in the close

Table V.1
Number of Hotels in Krakow by Category
(Q4 2012)

Standards	Number of hotels	Hotels awaiting confirmation ¹	Market share (by room number)
*	6		4%
**	20		15%
***	74		55%
****	25	1	19%
*****	10		7%
Total	135	1	—

¹ hotels in the classification procedure (under construction or a hotel upgrade)

Source: Central Hotel Register in Poland, Marshal's Office of the Małopolskie Voivodship, Knight Frank

vicinity of the "Planty" area. It will be the second "intelligent hotel" in Poland (following Puro hotel in Wrocław). The building will be equipped with innovative technical solutions, i.e.: electronic check-in and check-out or touch control panels in rooms. The hotel will offer 138 rooms, as well as conference rooms and restaurants and is due for delivery at the end of 2013.

The opening of the Gromada Hotel is scheduled for Q2/Q3 2013. The hotel is expected to become a four-star facility and a part of the largest convention centre in Poland. It will offer 231 rooms

with 420 beds, 24 conference and business rooms, a restaurant, café, gym, sauna, solarium and a massage centre.

The first Tulip Inn hotel in Poland is to start operating in Q2 2013 in Krakow. The property located on Łobzowska Street is going through a refurbishment and expansion and upon completion will feature 87 rooms. Tulip Inn is a three-star brand belonging to the Louvre Hôtels Group.

In Q2 2013 Norymberska Hotel is planned to be delivered. The project will be situated in Zakrzówek, an area of Dębniki District, on the site of a former quarry. The investor states that the hotel with an area of 5,100 m² is expected to receive its first guests in Q3/Q4 2013. The project will comprise hotel rooms, apartments, conference rooms, a restaurant and scenic terraces. However, no specific information concerning the standard of the hotel has been revealed so far.

Hilton Worldwide has announced its first dual branded property in Poland. The two hotels, DoubleTree by Hilton Krakow Hotel & Convention Center and Hampton by Hilton Krakow, will operate based on a franchise agreement with Euro Hotele Sp. z o.o. from Krakow. The 224-room DoubleTree by Hilton Krakow Hotel & Convention Center will feature 2,250 m² of conference and events space, including a 930 m² ballroom and 17 meeting rooms. The hotel will also offer a dining restaurant and a bar, as well as

a fitness centre with saunas and swimming pool. Hampton by Hilton Krakow hotel will be constructed as a part of the same building, but with a separate entrance and lobby. The project will be built as an economy class project, offering 161 rooms. Both hotels will start operations in 2014.

Resumption of works on the Pantheon Hotel, the construction of which was suspended in H1 2012, is expected to take place in 2013. The property will be situated on Nowohucka Street in Krakow, 2.5 km from the Main Market Square and will offer 79 rooms and 3 apartments with 170 beds, 4 conference rooms designed for 180 people, a restaurant, café, lobby bar, jazz club and SPA Centre. The Pantheon Hotel was designed as a rectangular block, consisting of two 3-storey buildings combined with a passage-way and a glass roof. The total space will amount to approximately 5,860 m².

Additionally, in 2013 RT Galicya will start operating under the Best Western brand. RT Hotels made the decision due to satisfactory cooperation whilst operating the former RT Monopol (Best Western Krakow Old Town). Rebranding will require adaptation works including modernisation of the hotel rooms and renovation of the façade. RT Galicya will be the third Best Western hotel in Krakow, after Best Western Premier Krakow Hotel and Best Western Krakow Old Town.

Stalprodukt S.A. plans to build a five-star Ferreus hotel on Kopernika Street which will offer 71 rooms. The planned site of the project is currently developed with a tenement house and construction of a hotel will include partial demolition of this existing building, followed by rebuilding of the remaining structure and construction of a two-storey underground parking. The works are expected to take approximately two years. The investor has a building permit, but has not yet disclosed any exact construction dates and is considering a selling the investment along with a completed project.

A four-star Hilton Garden Inn Balice is planned to be built by a subsidiary of the Krakow-Balice International Airport in the immediate vicinity of the airport. To be constructed on a former parking lot in front of the terminal, the hotel will offer 154 rooms. Hilton Garden Inn Balice will be built by Eiffage Budownictwo Mitex S.A. with commencement of construction works scheduled for Q1 2013.



Table V.2 Hotels in Selected Cities in 2012 by Standard

	Krakow	Warsaw	Wrocław	Poznań	Gdańsk	Łódź	Katowice
*	6	9	4	2	1	2	2
**	20	16	4	15	7	9	4
***	74	23	26	23	18	12	6
****	25	8	11	5	6	2	5
*****	10	10	5	1	4	0	1
Total	135	66	50	46	36	25	18

Source: Knight Frank on the basis of the Central Hotel Register in Poland

Krakow Hotel Market Compared with Selected Cities in Poland

Krakow remains the leading Polish city in terms of the number of categorised hotels and ranks second, after Warsaw, in the number of beds provided in hotel establishments. It should be noted that the number of hotel beds exceeding 10,000 on offer was identified only in Warsaw and Krakow. The above figures along with the significance of the capital of Małopolska as a tourist destination prove its unique character amongst the regional cities.

Contrary to the other cities in Poland, Krakow offers a wide range of luxurious accommodation in four- and five-star hotels. They comprise large-scale properties such as: Galaxy****, the Sheraton Krakow Hotel***** and Novotel Krakow City West***** as well as small boutique hotels i.e.: Copernicus***** or Ostoya Palace Hotel*****. In December 2012, the total number of such facilities amounted to 35 in Krakow, while in Warsaw and Wrocław it only reached 18 and 16 respectively. The number of hotels of the highest categories in Katowice, Poznań, Gdańsk and Łódź fell within a range of only 2-10 projects. Similarly to most Polish cities, Krakow's hotel market is dominated by the three-star hotels, which constitute 55% of all hotel accommodation in the city. Nevertheless, the offer of such venues in Krakow is far more numerous than in other Polish cities. Krakow is perceived by young people as a good weekend trip destination which emphasises the need for cheaper lower-end hotels. This is evident when comparing the number of the one- and two-star hotels in the capital of Małopolska and other regional cities.

Collective Tourist Accommodation in Krakow Compared with Selected CEE Cities

Though Krakow is not the capital city of Poland, the following analysis focuses on the CEE capitals of the European Union members only.

Comparison of accommodation conditions in Krakow to other capitals of Central and Eastern Europe is complicated, as the cities differ in many aspects. The population in Prague and Budapest exceeds 1 million citizens, while in Krakow and Bratislava it is estimated at approximately 760,000 and 400,000 respectively. Furthermore, the cities vary in terms of their international recognition. Despite the above differences and the fact that Krakow is not the capital, it has a well-developed and diversified accommodation base. Among the analysed cities, Krakow ranks third both in terms of number of establishments and the total number of beds. The discrepancy between the number of beds supplied in Prague, Budapest, Bratislava and Krakow remains significant mostly due to the different sizes of the cities. Nevertheless, it should be noted that the average pace of delivery of new establishments in Krakow in the period between 2004 and 2011 amounts to approximately 13 projects per year, whereas it reaches only 4 in Bratislava, 3 in Prague and 2 in Budapest.

Table V.3 **Collective Tourist Accommodation Establishments**

	2004	2005	2006	2007	2008	2009	2010	2011
Prague	598	597	619	654	656	653	630	622
Budapest	223	219	216	223	217	243	244	239
Krakow	121	124	138	157	173	195	215	221
Bratislava	158	150	155	181	186	188	187	193

Source: Knight Frank on the basis of Eurostat

Table V.4
Number of Bed-places in Hotels and Similar Establishments¹

City	Number of bed places
Prague	68,029
Budapest	41,004
Krakow	26,000
Bratislava	14,270

¹ as of Q4 2011

Source: Knight Frank on the basis of Eurostat

Forecasts

2013 is expected to bring a significant supply of new hotel establishments in Krakow. According to investors' statements four hotels featuring over 400 rooms are due for delivery in H1 2013, while three more should receive first guests in the H2 2013. Dynamic development of the BPO sector in Krakow is predicted to attract new business visitors and therefore contribute to further extension of the accommodation base in the city.





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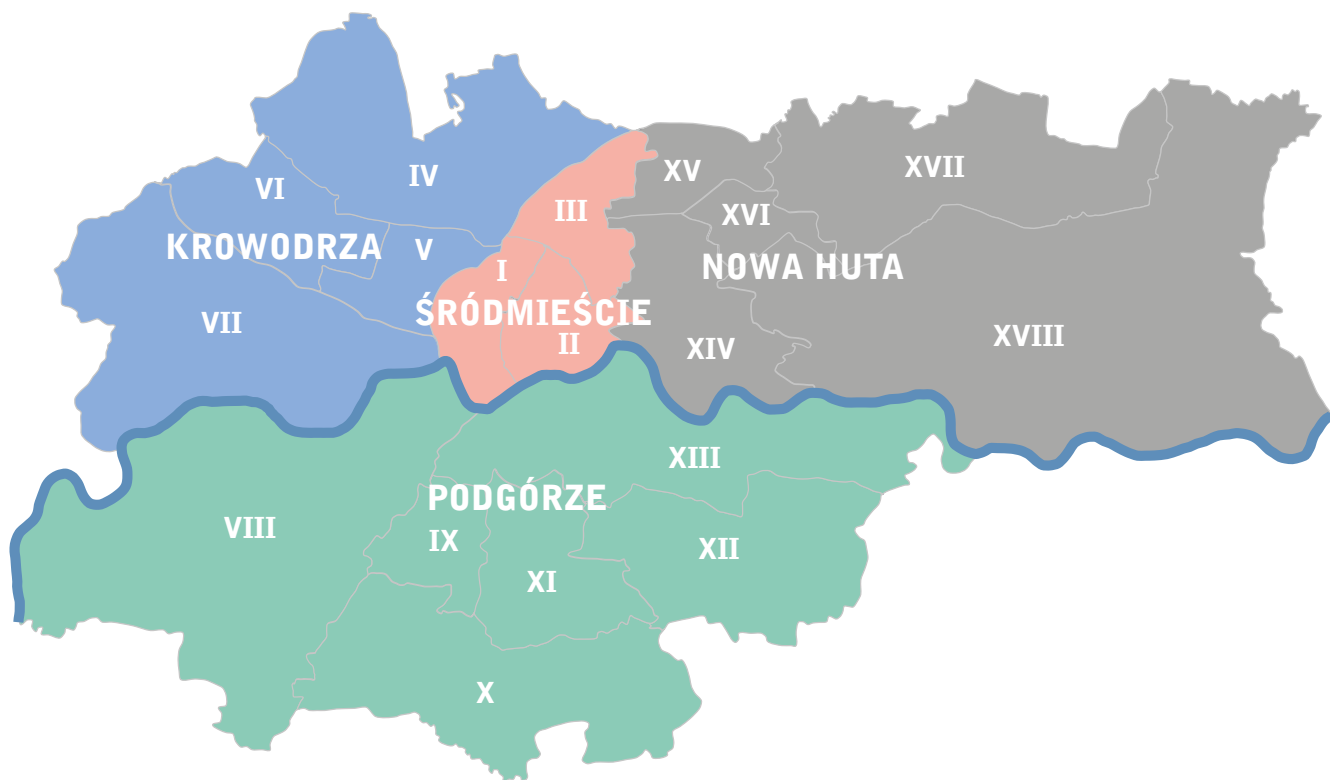
Krakow to business

Wydział Rozwoju Miasta / Urząd Miasta Krakowa
City Development Department / Municipality of Krakow

wr.umk@krakow.pl www.krakow.pl



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	Wzgórz Krzesławickie
	XVIII	Nowa Huta

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