



KRAKOW  
REAL  
ESTATE  
MARKET  
2013

KRAKOW 2014

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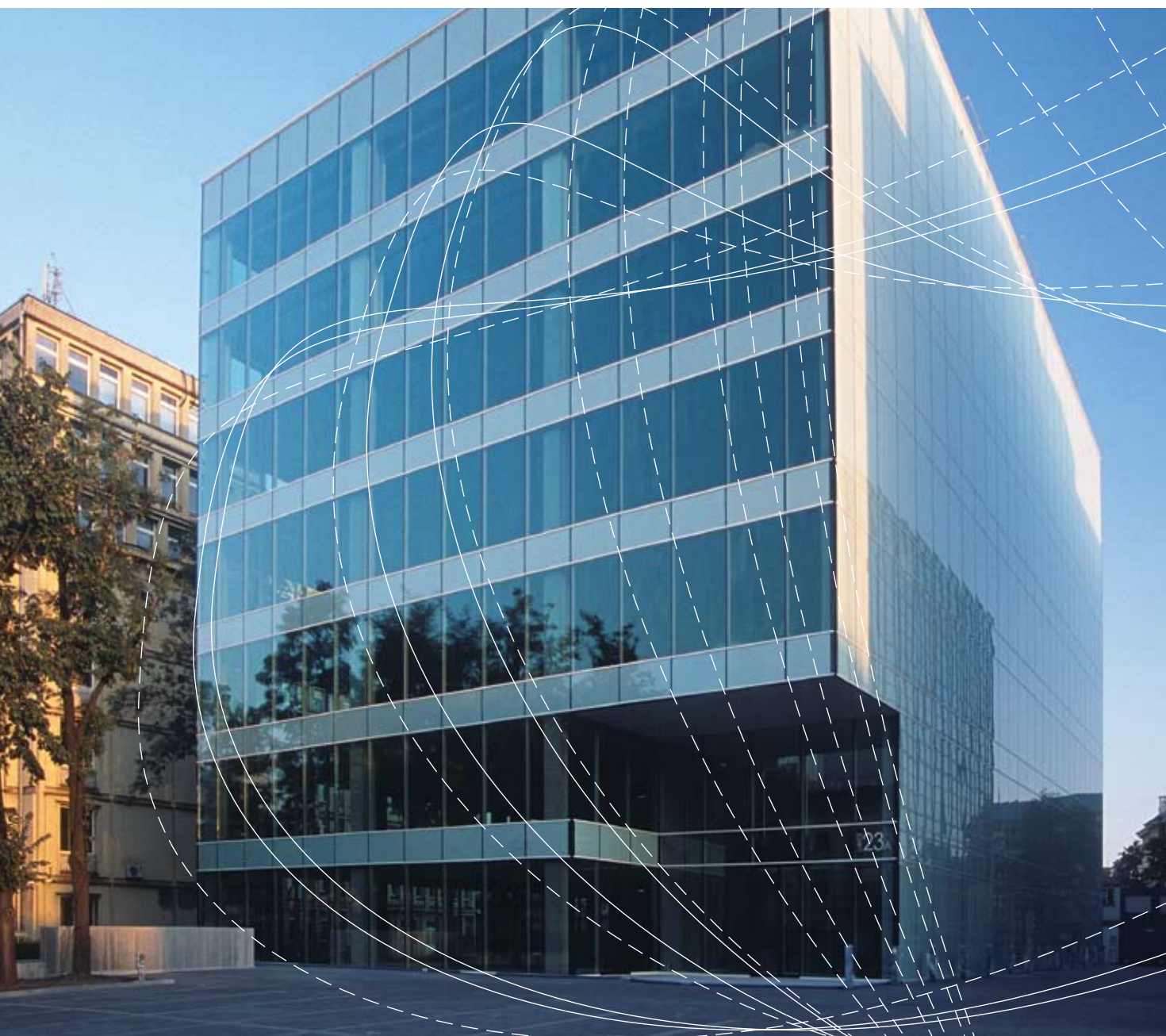
Prices in the report are quoted in PLN or EUR, depending on the transaction; often one of the currencies is referred to as the basis for defining the value. Average currency exchange rates are published every day on the website of the National Bank of Poland ([www.nbp.pl](http://www.nbp.pl)).

**Measures used in Poland**

1 ar = 100 m<sup>2</sup> = 0.01 hectare (ha)

1 hectare = 10,000 m<sup>2</sup> = 100 ars (ar)

The extended version of the Krakow Real Estate Market 2013 on the housing and land market is to be published on [www.krakow.pl](http://www.krakow.pl) in the business tag in May 2014.



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# LADIES AND GENTLEMEN,

With the passing of another year, I would like to offer you the latest Krakow Real Estate Market, a publication which contains a summary of the changes that have taken place in 2013 in our city's commercial market. This journal now has an established presence among publications prepared by the Department of City Development of the Krakow Municipal Office.

Krakow is not just a city of tradition, but is also a centre of progress, technology and specialised services. The development of these areas contributes to the development of urban infrastructure. The city supports investors professionally – Krakow Investor Service Centre won almost the maximum number of points in a mystery client study by the Circle of Students at the Warsaw School of Economics. The unit was highly praised above all for its excellent communication with investors, both in Polish and English. The official city portal [www.krakow.pl](http://www.krakow.pl) where, under the Business tab, you can easily find contact details for COI, information about free investment areas, and other news for businesses and residents, was also distinguished.

We have made every effort to ensure that Krakow Real Estate Market is a useful hand-book on how our city space is changing, what has been built, and what the investment plans of developers are in the near future. Our most important task is to support investors. The greatest reward and thank you for this will be the continuous development of Krakow and interest in our city.

**Elżbieta Koterba**

Deputy Mayor of the City of Krakow  
for City Development



## ABOUT KRAKOW

For many years, Krakow has been a city that attracts investors. The major advantages of Krakow include: the availability of skilled workers, a thriving special economic zone, a convenient geographical location in terms of communications, attractive grounds, and a wide range of real estate along with a developed services sector for business and scientific and research facilities.

Krakow lies at the crossroads of important routes, close to Upper Silesia and the southern Polish border. The city's

transport accessibility is growing constantly, pursued through infrastructure investments. The A4 Motorway provides a quick and convenient connection with Silesia and Germany, and in the future also with Ukraine. Transportation to and from Krakow is ensured by numerous railway lines and bus routes and is located approximately 10 km from the Krakow-Balice International Airport – the largest regional airport in Poland, serving nearly 3.5 million passengers. The city has a well-functioning public transport network based on trams and buses.





Krakow is the second largest city in Poland and the capital of Małopolska. The proximity of the Silesian Agglomeration increases Krakow's regional market and economic importance. The capital of Małopolska has almost 760 thousand inhabitants, which, together with a large number of students and people staying temporarily, creates a conurbation of almost a million. With migration, the population is still growing. Krakow is a city of relatively young people – 65% of the population is of working age, and nearly 20% pre-working.

The city, one of the most important academic centres in Poland, hosts the seat of the National Science Centre, which aims to support research activities in the field of pure research. In the cooperation between the local government, science and business, economic development is supported by R&D, advanced technologies, excellence, tech transfer and clusters focusing companies, universities and research units collaborating in the conduct of research and development.

The 22 universities actively operating in Krakow educate more than 200 thousand students, of whom more than 50 thousand graduated in 2013 and fed into the job market, and especially in the thriving modern service sector. In 2013, Krakow was recognised by Tholons as the best location for the BPO sector in Central and Eastern Europe.

During the IV Conference of the Association of Business Service Leaders (ABSL), Krakow was honoured by the modern service industry with the “2013 ABSL Recognition Award”, awarded annually for outstanding achievements in the field of outsourcing. Krakow received this award for its support in the creation of more than 6,000 new jobs in the modern services centres.

Krakow's strong economy, focusing mainly on the services sector, has been recognised by the rating agency Standard & Poor's, which in 2013 confirmed the long-term international rating of Krakow at investment grade: A– (Stable). This level corresponds to the rating for Poland for foreign currency debt and is the highest possible for local government units in this country.



Krakow hosts a special economic zone, occupying about 80 hectares, of which more than 70% of the area is developed. This zone, suitable for almost all companies in the traditional industries sector and the service sector, offers new companies greenfield areas, finished office space, and public assistance.

Especially important for Krakow and Małopolska project is the commencement of the strategic project “Krakow – Nowa Huta Future”. Its aim is to revitalise approximately 5.5 thousand hectares of brownfield land, development of the former steelworks protection zone,

and the opening of the Nowa Huta area to future investments, including the development of new business services. Coordination of project operations is to be conducted by the newly formed company Krakow – Nowa Huta Future SA. Its tasks will include separation of investment areas, ordering land ownership, preparing and providing the necessary technical and organisational infrastructure and fundraising, including Provincial, National and European Funds. Krakow – Nowa Huta Future SA will also work towards the establishment of economic zones and business parks.





Krakow is not only an important economic centre, but also a cultural centre. In 1978, the Old Town, including Wawel, Kazimierz and Stradom, was entered on the UNESCO World Heritage List. In 2000 Krakow held the prestigious title of European City of Culture, and in 2013 the capital of Małopolska was awarded the title of UNESCO City of Literature.

Every year dozens of festivals are organised in the city at local and international levels, which attract many tourists from home and abroad. Krakow is one of the most visited cities in Poland and Europe, regularly occupying the top positions in the rankings of tourist attractiveness. In 2013 it was visited by more than 9 million people. For 2014, the plans include the opening of the ICE Congress Centre – a state-of-the-art facility which will host congresses, conferences, concerts, theatrical performances, exhibitions and other prestigious cultural and social events. ICE will provide a response to the growing interest in the city as the destination for business tourism.

Comprehensive assistance for companies at every stage of the investment process – from site selection to obtaining a building permit – is provided by the Investor Service Centre operating within the City of Krakow Municipal Office.

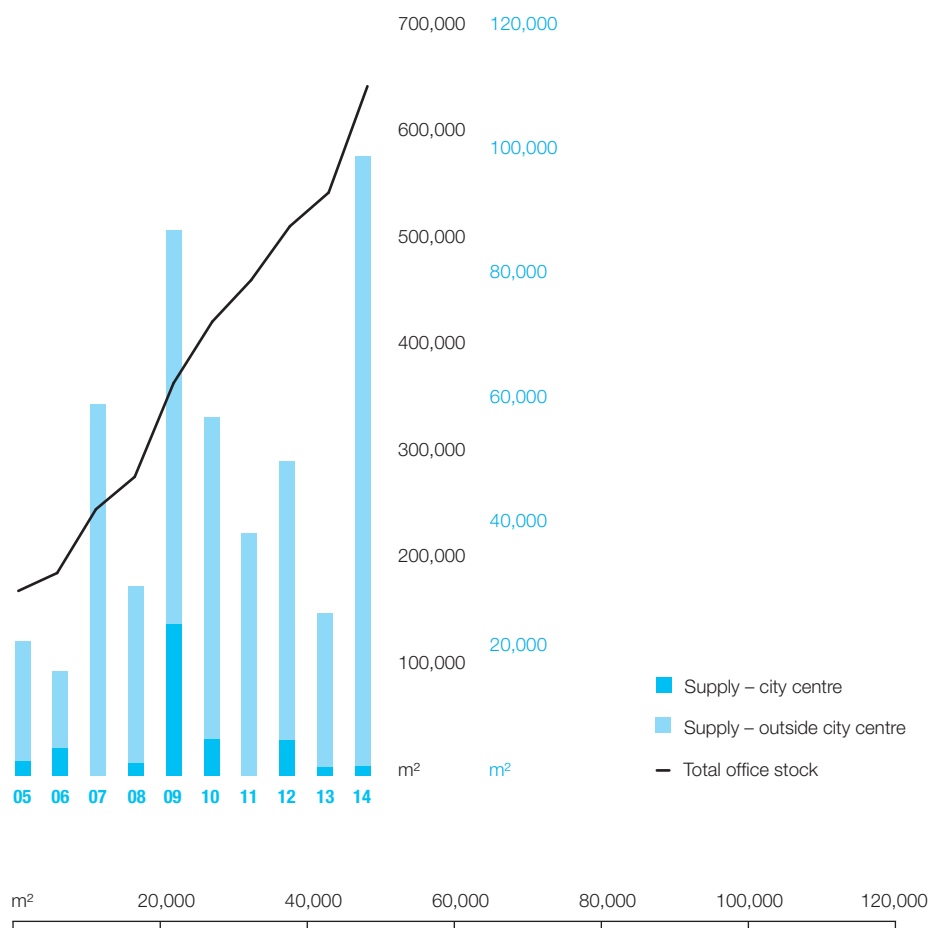
Krakow remains the leader in terms of office sector development amongst Poland's regional markets. 2014 is shaping up to be a record-breaking year in terms of new supply, as approximately 99,000 m<sup>2</sup> of new office space is scheduled for delivery. Due to the significant volume of supply under construction the vacancy rate

is expected to increase in the upcoming quarters. However, leasing activity remained solid in 2013 and strong demand in the office sector is expected to continue. Despite the considerable development pipeline, rents are expected to remain stable, though developers will be more willing to offer additional incentives for tenants.

**Chart II.1.**  
Annual supply of rentable office space in Krakow (2005-2014\*)

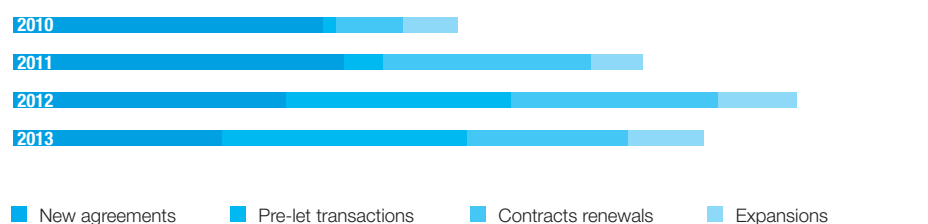
Source: Knight Frank

\* Forecast including projects under construction



**Chart II.2.**  
Structure of transactions concluded in Krakow (2010-2013)

Source: Knight Frank



**Table II.1.**  
Largest office projects at the construction stage in Krakow (Q4 2013)

Source: Knight Frank

Project	Address	Total rentable office space (m²)	Developer
Kapelanka 42 (I, II phase)	42 Kapelanka St.	28,200	Skanska
Enterprise Park II	4 Na Dolach St.	14,000	Avestus Real Estate
Quattro Business Park D	25 Bora-Komorowskiego Av.	12,000	Grupa Buma
Orange Office Park – Amsterdam	1 Klimeckiego St.	11,230	East West
Avia	41 Jana Pawła II Av.	10,100	GD&K
Alma Tower	6A Pilotów St.	10,000	UBM AG
Bonarka 4 Business E	7f Puskarska St.	9,500	TriGranit





As of December 2013 the modern rentable office stock in Krakow approached 547,500 m<sup>2</sup> which ranks the capital of the Małopolska region first among the major regional markets in Poland and the second in the country after Warsaw. The total supply of modern office space including owner occupied premises is estimated at 602,800 m<sup>2</sup>. Only 18% of office space in Krakow is situated in the city centre, with the remaining 82% in non-central locations. During the dynamic expansion of the local market within the last years, a number of office concentration areas outside the city center have developed.

The office stock is more highly concentrated in:

- the southern part of Prądnik Biały and Prądnik Czerwony districts,
- the area along Armii Krajowej Street (south-eastern Bronowice district),
- the western part of the Podgórze district and the northern part of the Podgórze Duchackie district,
- the area along Dekerta Street and Na Dołach Street (northern part of Podgórze district),
- the Zabierzów municipality.

The dynamic growth of the office market has been highly influenced by the BPO sector. The most notable increase in office supply in Krakow was observed in 2009, when approximately 74,400 m<sup>2</sup> was delivered to the local market.

### Supply

In 2013 five office buildings were completed, delivering some 30,100 m<sup>2</sup> of leasable space. Moreover, at the end of 2013 approximately 109,300 m<sup>2</sup> of space was under construction, of which some 99,000 m<sup>2</sup> is scheduled for completion in 2014. Most of the schemes under construction are located outside the city centre. Currently, Krakow is the regional market with the highest volume of office space under construction – over 10% of Poland's new office supply has been built in the capital of the Małopolska region. Moreover, tens of office projects have been identified at different stages of the planning process. Projects which have already obtained valid building permits should supply the Krakow office market with an additional 100,000 m<sup>2</sup> of office space. ([Chart II.1](#), [Table II.1](#))

### Demand

Over the course of the last two years lease volumes in Krakow remained at a high level of some 100,000 m<sup>2</sup> per year. The Krakow office market has observed continued significant levels of tenant activity, which has been reflected in the high number of signed lease agreements. In 2013, tenants in Krakow leased 94,000 m<sup>2</sup> of office space, some 12% down when compared to the record year of 2012. Due to the limited volume of vacant space, take-up was characterized by a prevalence of pre-let agreements which constituted 36% of transaction volume. New deals accounted for some 30% of the total recorded take-up while renewals represented 23% of annual take-up. Expansions of occupied space accounted for 11%. Demand for office space in Krakow has come mainly from companies within the BPO and professional services sectors. Krakow has been a leader amongst Polish regional cities in terms of scale of employment and number of entities operating in this sector. Structure of take-up is presented on a [Chart II.2](#).

The high volume of take-up partly resulted from several significant lease agreements, among which the largest was the renewal of Capgemini's 9,600 m<sup>2</sup> in Quattro Business Park.

The [Table II.2](#) shows major agreements signed in Krakow in 2013.

Among the numerous enterprises which entered the market within the last 2 years, the biggest include Brown Brothers Harriman, Euroclear, FMC Technologies, Cisco, Herbalife, Heineken and Premier Farmell. Krakow's potential as a BPO centre remains unexhausted even though the number of leases signed in 2013 confirms the high level of interest in the Krakow office market. In the last report published by Tholons and Global Services "Top outsourcing cities in 2014" Krakow was ranked the 9<sup>th</sup> best

location for investments in the BPO sector in the world, which makes the city the highest-rated European city.

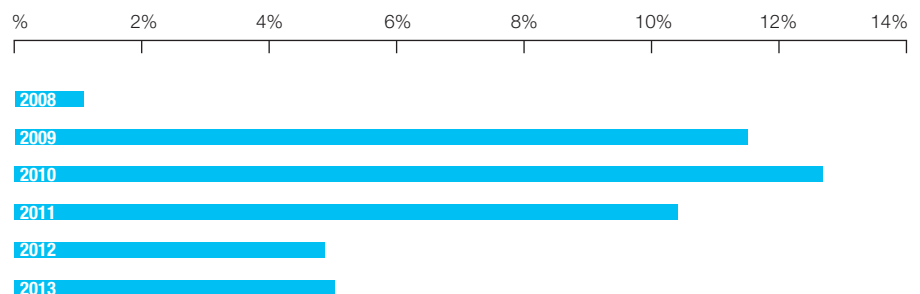
### Vacancy Rate

Since 2012, the vacancy rate in Krakow has remained the lowest amongst regional cities in Poland. In December 2013 approximately 28,100 m<sup>2</sup> of office space was available in Krakow, which accounted for 5.1% of the local office market (an increase of 0.2 pp. when compared to the end of 2012). Some 5,800 m<sup>2</sup> was located in the city centre (vacancy rate – 5.8%), while the remaining 22,300 m<sup>2</sup> was available in non-central areas (vacancy rate – 5%). Due to the significant amount of office space to be completed in 2014, the forthcoming months are expected to bring an increase in the vacancy rate. ([Chart II.3](#))

**Table II.2.**  
**Largest transactions concluded in Krakow in 2013**  
Source: Knight Frank

Project	Occupier	Office space leased (m <sup>2</sup> )	Type of agreement
Quattro Business Park	Capgemini	9,600	renewal
Bonarka 4 Business D	Lufthansa	8,500	pre-let
Enterprise Park C	Cisco	7,000	pre-let
Orange Office Park	BBH	4,700	pre-let
Rynek 12/13	Google	3,650	renewal/expansion
Edison	Genpact	3,200	renewal
Bonarka 4 Business E	RWE	3,140	pre-let
Avia	BPH	3,110	pre-let
Quattro Business Park C	Google	3,050	new
Edison	IBM	3,000	renewal

**Chart II.3.**  
**Vacancy rate in Krakow (2008-2013)**  
Source: Knight Frank



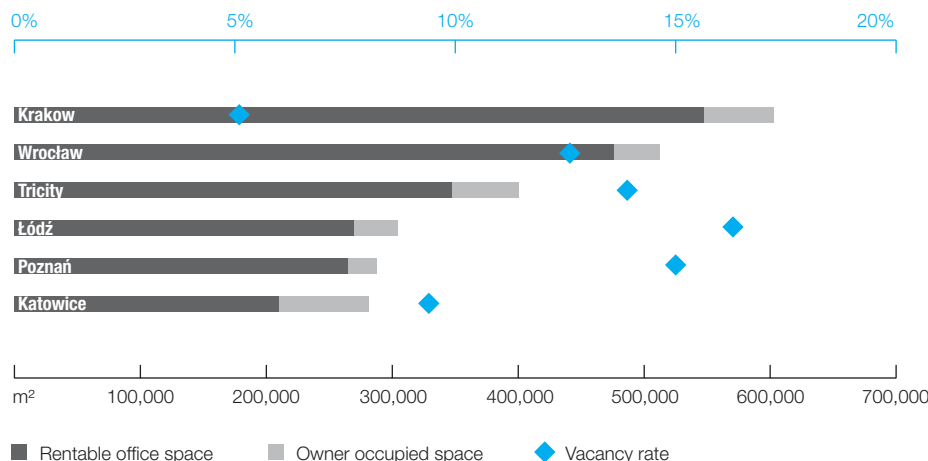


EUR/m²/month

**Chart II.4.**

**Asking rents in major regional cities (Q4 2013)**

Source: Knight Frank



**Chart II.5.**

**Total office stock and vacancy rates in regional cities in Poland (Q4 2013)**

Source: Knight Frank

### Rents

Asking rents for office area in A-class buildings ranged between EUR 13 and 15/m²/month, while the level of rents quoted in B-class buildings varied from EUR 10 to 12/m²/month. Due to the high volume of supply under construction developers are more willing to negotiate terms of lease agreements. Effective rents have remained lower than the asking level by 10-15% while rent-free periods granted to tenants have varied on average from 5 to 6 months in case of 5 year contracts. (Chart II.4)

### Krakow Office Market Versus Major Regional Cities

At the end of 2013, modern office stock in the major regional markets totalled approximately 2.42 million m², of which over 25% was located in Krakow. Among the regional cities, Krakow remains the largest office market with a stock of approximately 602,800 m². Wrocław ranks second with a total existing office space estimated at some 512,000 m². The office

stock of Poznań, Łódź and Tricity range between 288,100 m² and 436,400 m², while Katowice remains the smallest office market with a total stock of approximately 281,000 m². In the regional cities the largest construction activity was observed in Krakow where approximately 109,300 m² of office space was under development. A significant amount of new office space is also being built in Wrocław and Katowice – 83,100 m² and 74,500 m² respectively.

Regional markets differ in terms of volume of vacant space with the lowest level registered in Krakow where in Q4 2013 the vacancy rate accounted for only 5.1%. Conversely, the highest percentages of available space among regional cities was observed in Poznań (15%) and Łódź (16.6%). (Chart II.5)

Asking rents in major regional cities remain at comparable levels to rates offered in Krakow.

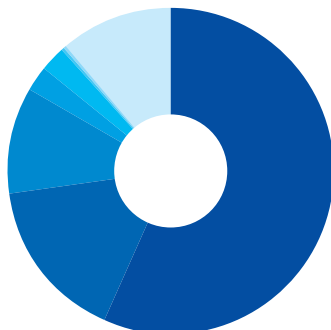


Krakow is the second largest city in Poland and one of the most popular destinations for tourists. Nearly 100 festivals and other cultural events of international renown are held annually in the city and its historic centre is a UNESCO World Heritage Site.

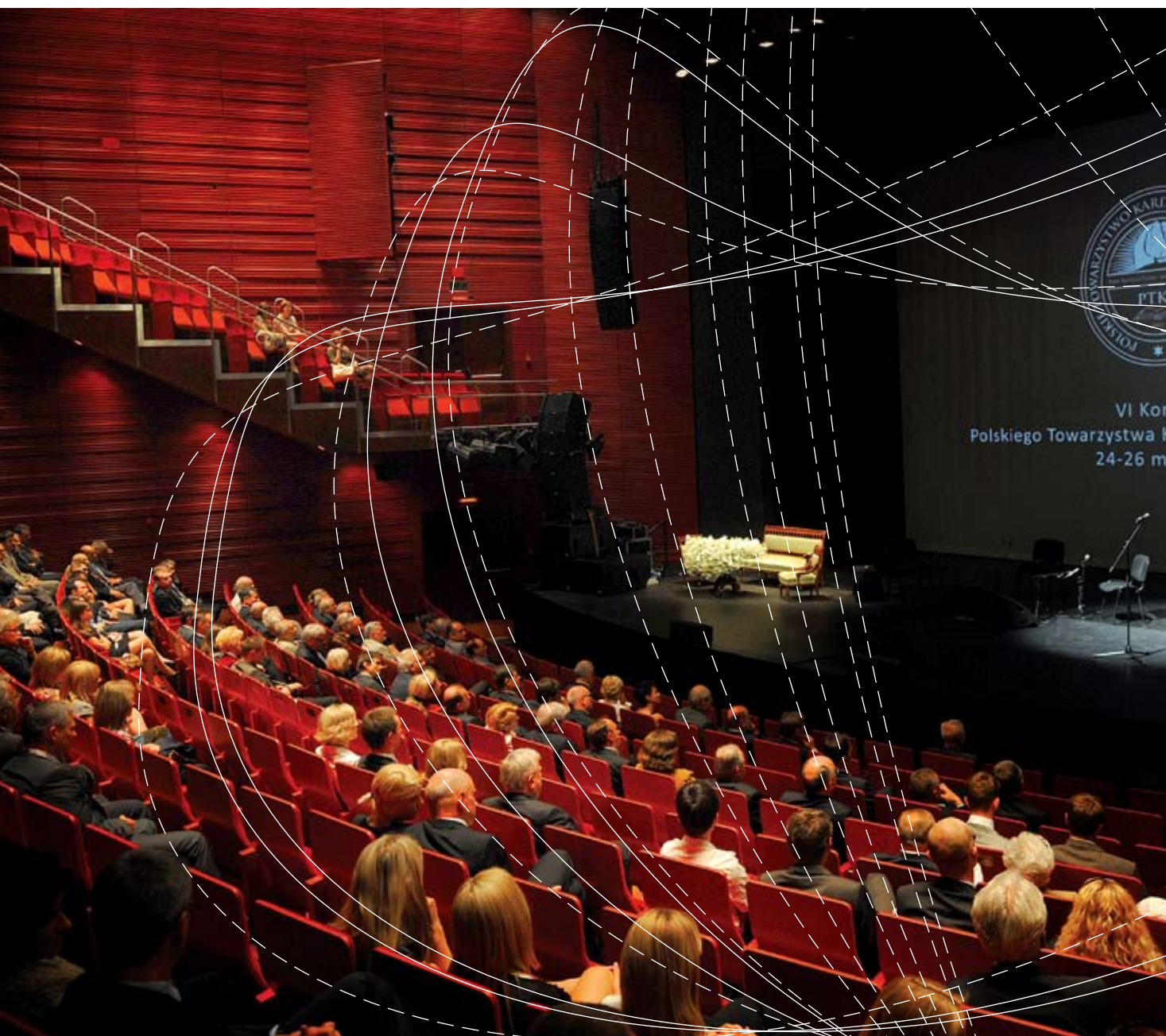
Krakow is also a thriving centre for business, playing a leading role in terms of the total number of meetings and events. These factors affect the attractiveness of the city as a cultural and business centre.

Chart III.1.  
Share of Meetings  
and Events  
in Poland  
by Selected Cities  
in 2012

Source: Knight Frank  
on the basis of the Poland  
Convention Bureau  
of the Polish Tourist  
Organisation (PCB POT)



Warsaw	57%
Poznań	16%
Krakow	10%
Katowice	2%
Wroclaw	2%
Gdańsk	1%
Łódź	1%
Other cities	11%





### Tourism in Krakow

According to data published by the Małopolska Tourist Organisation (Małopolska Organizacja Turystyczna) approximately 12.6 million visitors visited the Małopolska region in 2013, an annual increase of 4.2%. The majority of visitors (79%) were domestic guests, with the share of foreign visitors declining by 5 pp. year-on-year in favour of Poles. The largest number of foreign visitors to the Małopolska region came from the United Kingdom, Germany, Spain and Italy.

In 2013 9.2 million people stayed in tourist accommodation facilities in Krakow, constituting over 73% of the total number of visitors to Małopolska, some 300,000 more than a year before. In 2013 the city recorded an increase in the number of foreign tourists who stayed in Krakow for more than one day. It is worth noting that tourists visiting Krakow more and more frequently decide to stay in hotels or guesthouses rather than in private homes.

In the coming years, tourist promotion of Krakow will significantly increase in relation to the city's bid to host the 2022 Winter Olympics (jointly with Jasna in Slovakia) and due to organization of World Youth Day in 2016.

Moreover, in 2013 Krakow received the highest consumer rating on the holiday review site Zoover and hence won the Zoover Award for the "Best European City Trip 2014". Zoover took into account more than 30,000 reviews of popular cities in Europe, including nightlife, culture, surroundings, atmosphere of the city and quality of hotels. 4 and 5-star hotels in Krakow are the most distinguished, and have scored the highest of all European cities with an average of 8.7. The capital of Małopolska has also scored exceptionally highly for culture, getting a 9.0 rating.

According to the report „Przemysł spotkań w Polsce – Poland Meeting & Events Industry Report 2013”<sup>1</sup>, Krakow occupied third place, following Warsaw and Poznań, in terms of the total number of conferences/congresses, corporate events, incentive events, fairs/exhibitions that took place in 2012 (1,849 events – a 10.5% market share). ([Chart III.1](#))

### Hotels in Krakow

Due to the constant growth in the number of visitors Krakow offers a wide selection of overnight accommodation. According to the Central Hotel Register in Poland, supervised by the Ministry of Sport and Tourism, there were 139 officially recognised hotels, of 1- to 5-star, operating in Krakow at the end of 2013. The accommodation base consisted of over 8,670 hotel rooms offering almost 15,950 beds. As well as hotels, several other types of accommodation of various standards and categories can be found, e.g. youth hostels, boarding houses or excursion hostels. They provide strong competition to hotels, mostly due to their comparable standard and lower prices. ([Table III.1](#))

<sup>1</sup> The report was prepared by the Poland Convention Bureau of the Polish Tourist Organisation in collaboration with the Polish Regional Convention Bureau and operators of facilities where meetings were held



**Table III.1.**  
**Number of Hotels**  
**in Krakow by Category**  
**(Q4 2013)**

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

Standard	Number of hotels	Number of hotel rooms	Number of bed-places
★	6	420	800
★ ★	19	960	1,930
★ ★ ★	77	3,510	6,500
★ ★ ★ ★	28	2,820	5,000
★ ★ ★ ★ ★	10	960	1,720
<b>Total</b>	<b>140</b>	<b>8,670</b>	<b>15,950</b>







The hotel market in Krakow is dominated by 3-star facilities, both in terms of the number of hotels (55% of the total number of premises in the city) and the number of hotel rooms (40%). (Chart III.2)

More than 200 rooms are offered in 6 schemes in Krakow. These hotels offer over 2,500 beds in total, from 206 in the Galaxy Hotel to 610 in Novotel Krakow City West. In contrast Krakow's hotel stock includes 21 smaller hotels offering fewer than 20 rooms each, totalling 617 bed-places, e.g. Hotel Pugetów (10 rooms) or Panorama (19 rooms).

In 2013 three 4-star hotels, offering 456 hotel rooms and nearly 750 beds in total, were completed in Krakow. Puro Hotel located in the city centre is the second "intelligent building" of the Puro chain (following Puro hotel in Wrocław) featuring innovative technology solutions, e.g. electronic check-in and check-out and a touch control panel in rooms. The project offers 138 rooms. The second project is Hotel Golden Tulip Krakow City Center situated

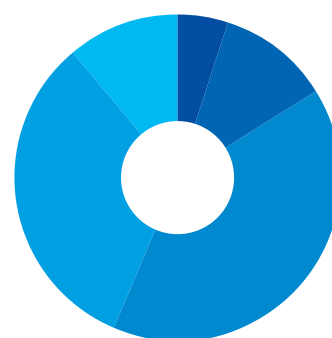
in close vicinity of the Old Town and the Planty area. The project consists of 87 rooms. The third project, Gromada Hotel, is part of the largest and most modern hotel and convention centre in Krakow and one of ten biggest projects in all of Poland. The development opened in Q4 2013 with 231 hotel rooms and 4,500 m<sup>2</sup> of conference area.

Hotels operating under the largest worldwide brands are gaining increased interest from corporate clients. In 2013 two 3-star Krakow's hotels were rebranded, offering 244 hotel rooms in total. RT Galicya hotel has officially joined the Polish Best Western chain. Best Western Galicya is the 20<sup>th</sup> project operating under this brand in Poland. Additionally, since July 2013, the Holiday Inn Express 3-star in Krakow has operated under the brand of Efekt Express Hotel. The Efekt-Hotele SA company terminated the franchise agreement with the IHG chain. Efekt Express Krakow is the second project in Poland, which abandoned the IHG brand in 2013.

**Chart III.2.**  
**Number of Hotel Rooms in Krakow by Standard (Q4 2013)**

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

★	5%
★★	11%
★★★	40%
★★★★	32%
★★★★★	12%



To improve the quality and standard, modernization works in many hotels has been undertaken, having a beneficial influence on guests' undiminished interest in renting rooms in highly rated projects. In 2013 the standard of four hotels operating in Krakow changed. Three have improved by one star each, Puro Hotel to 4-star, and Pod Kamykiem Hotel and Campanile Hotel to 3-star whilst the Demel Hotel has been reduced by one star to its current rating of 3-star.

#### Hotels in the Pipeline

The importance of the city as a tourist and business destination is reflected in the number of hotels currently in the pipeline. At the end of 2013 four hotels under

construction were identified: DoubleTree by Hilton Krakow Hotel & Convention Center and Hampton by Hilton (designed as one building), Hilton Garden Inn Balice and Hotel in Barska Street. Moreover, extension of the Holiday Inn Krakow City Center has been continued. Based on development schedules, construction of these five hotels should be completed by the end of 2014, thus increasing Krakow's stock by an additional 700 hotel rooms in total.

At the end of 2013 there were several hotels at the planning stage in Krakow, though according to information provided by investors, the dates of the construction works were undefined. Some of the hotels were at the initial stage of designing.

**Table III.2.**  
**Hotels in Selected Cities by Standard in 2013\***

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

\* including categorized hotels

Standard	Krakow	Warsaw	Poznań	Wrocław	Gdańsk	Łódź	Katowice
★	6	9	2	5	1	3	2
★ ★	19	19	17	5	9	10	5
★ ★ ★	77	31	32	25	19	14	6
★ ★ ★ ★	27	13	12	11	7	5	6
★ ★ ★ ★ ★	10	9	3	5	4	-	1
<b>Total</b>	<b>139</b>	<b>81</b>	<b>66</b>	<b>51</b>	<b>40</b>	<b>32</b>	<b>20</b>

**Table III.3.**  
**Average Room Prices in Hotels in 2013**

Source: Knight Frank, Trivago

City	Warsaw	Krakow	Wrocław	Gdańsk	Poznań	Łódź	Katowice
Price (PLN)	265	244	235	231	219	210	198
year-on-year change	0	-3%	-5%	-2%	-12%	-12%	-8%

**Table III.4.**  
**Number of Hotels and Similar Accommodation\***

Source: Knight Frank on the basis of Eurostat

\* including hotels, apartment hotels, motels, boarding houses, tourist residences

City	2008	2009	2010	2011	2012	Number of bed-places in 2012
Prague	550	555	531	526	525	68,800
Vienna	386	400	396	409	420	55,400
Krakow	173	195	215	221	241	26,500
Budapest	194	195	219	222	216	45,300
Bratislava	121	129	134	138	155	15,700



Furthermore, investors increasingly apply for the change of the master plans. An increase of interest in hotel assets in Krakow was confirmed by the Angel Poland Group purchase, who in 2013 bought a historic tenement building for PLN 28 million with a zoning decision for a hotel granted by the city authorities. The late 18<sup>th</sup> century property is located in Stradomska Street and currently offers 39 apartments and retail units.

Additionally, Focus Hotel, a Polish economy chain, plans to strengthen its position in the hotel market by constructing new 4-star branded hotels in the largest Polish cities, including Krakow.

#### **Krakow Hotel Market vs. Selected Cities in Poland**

Krakow boasts the largest base of officially categorized hotels when compared with other Polish cities, significantly exceeding even Warsaw's total. A certain amount of disproportion in the Krakow market has been noted in the number of higher

standard hotels (3- and 4-star) – the most popular among visitors. In all major cities an increase in the number of such assets has recently been observed on a yearly basis but at the end of 2013 the number of Krakow's hotels in these standards exceeded more than twice the amount of any other analysed city. [\(Table III.2\)](#)

One of the world's largest hotel search engines, Trivago, reported that in 2013 the overnight accommodation price for a standard double room in hotels in Poland fell by 6% y-o-y<sup>2</sup>. This decline results mainly from fierce competition in the market caused by the increasing number of new, cheaper projects available. In 2013 in Krakow the average nightly room price amounted to PLN 244, a decrease by 3% y-o-y. The prices are diversified mainly depending on the standard of the project, location within the city and whether the hotel belongs to the largest and the most recognizable worldwide hotel brands or not. [\(Table III.3\)](#)

#### **Hotels in Krakow vs. Selected Cities in Central-Eastern Europe**

Compared with selected cities in Central-Eastern Europe, Krakow distinguishes itself due to its diversified and attractive accommodation base. Despite the fact that Krakow is not the capital city, the high levels of tourist interest in relation to neighbouring European capitals is maintained.

Analysing the growth in number of hotels and similar accommodations from 2008-2012, Krakow was ranked first, with an increase by 68 schemes. Bratislava's and Vienna's bases increased in this period by 34 projects each, while Budapest's stock rose by 22 hotels. Prague noted a significant decrease in the number of categorized developments, by 25 schemes. In terms of the number of projects, Budapest offers a similar number as Krakow, though the average number of bed-places per hotel amounts to 210, while in Krakow the number is much lower, at 110. [\(Table III.4\)](#)

<sup>2</sup> Prices were calculated on the basis of over 2 million daily price inquiries for overnight hotel stays generated through the Trivago hotel search

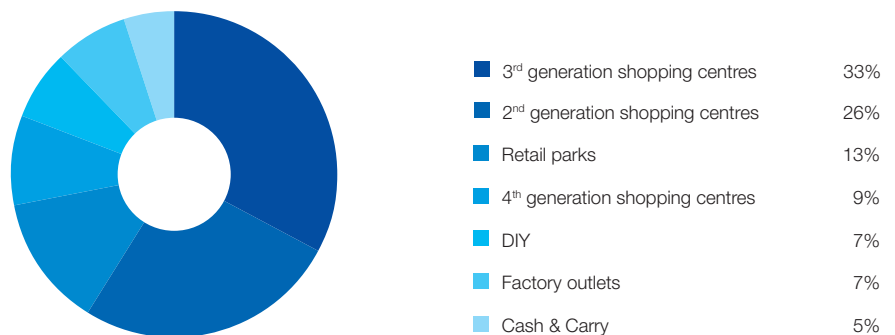


The limited volume of the retail space in the pipeline in Krakow will have an impact on the stability of rents in 2014. Due to the fact that 40% of the total retail stock in Krakow is more than 10 years old, a trend of expansion and remodelling of existing facilities will be observed in the next few years.

International and domestic brands have confirmed their plans to expand their distribution channels in 2014, as a result of which retail space absorption is expected to remain at a comparable level in the forthcoming months.

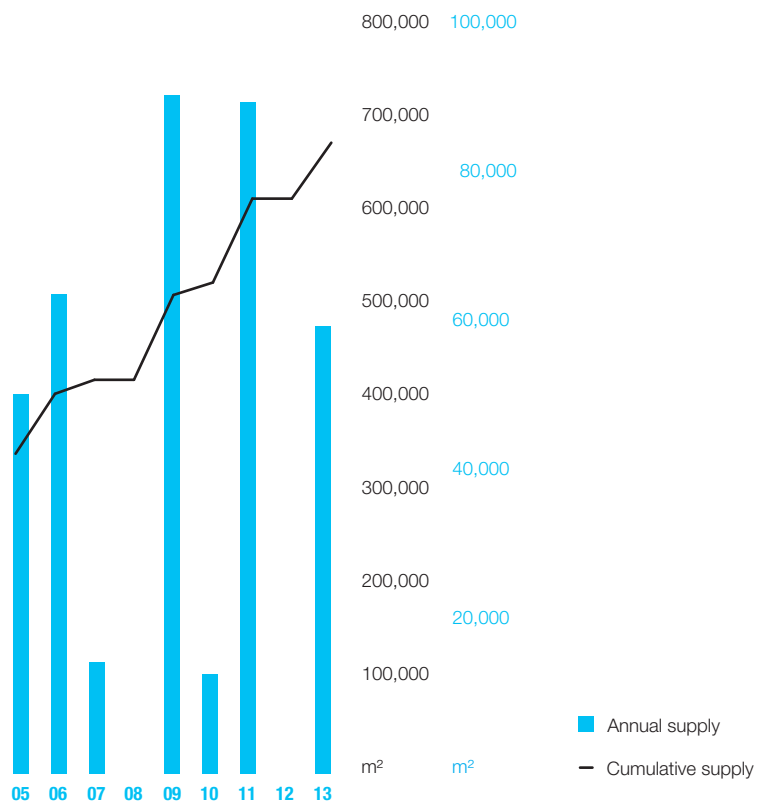
**Chart IV.1.**  
**Share of Retail Formats in Krakow in 2013**

Source: Knight Frank



**Chart IV.2.**  
**Annual and Cumulative Supply of Modern Retail Space in Krakow**

Source: Knight Frank





## Supply

Krakow is one of the most attractive tourist, academic and business destinations in Poland. Due to its popularity the city continues to produce development opportunities for the retail sector. Krakow's retail market ranks in fourth place (following Warsaw, Silesia and Poznań) in terms of the total stock in the largest Polish agglomerations. At the end of 2013 the exiting supply in Krakow reached a level of approximately 680,000 m<sup>2</sup>, constituting 11% of the total retail supply in the eight major agglomerations in Poland.

Retail stock in Krakow is formed by diversified retail formats, but the highest share (33%) in Krakow constituted 3<sup>rd</sup> generation shopping centres. (Chart IV.1)

The largest and the most prosperous shopping centres in Krakow include Bonarka City Center (91,000 m<sup>2</sup> of GLA), Galeria Krakowska (64,000 m<sup>2</sup>) and the newly opened Galeria Bronowice (60,000 m<sup>2</sup>), the only project completed in Krakow within the last two years. An Auchan development, Galeria Bronowice is located in the northern part of the city and offers 160 retail units, 2,800 parking places and special space for the Academy of Fine Arts. The Table IV.1 and Chart IV.2 presents the largest retail malls completed in Krakow since 2008.

The retail market in Krakow is dominated by shopping centres. The city offers fifteen such centres, constituting nearly 70% of the total retail stock in the city. Clients have become accustomed to large retail formats as the main destination for shopping, although high-street retail in Krakow is also in demand. The main chain stores and other top-end brands locate their showrooms along the busiest thoroughfares such as Floriańska Street, Szewska Street and Grodzka Street. Rental levels in the most attractive parts of Krakow – the Main Market Square (Rynek Główny) reach as much as EUR 100/m<sup>2</sup>/month.

This part of the city is characterized by dense pedestrian traffic, made up of tourists, students and Krakowian residents. The largest number of premises in the core centre are occupied by clothes and shoes shops as well as restaurants, cafés and pubs.

It should be noted that 40% of the retail stock in Krakow is more than 10 years old. According to developers' announcements, in next few years, a number of retail projects are planned to be extended while malls without expansion possibilities will be refurbished or re-commercialised to improve their position in the market.

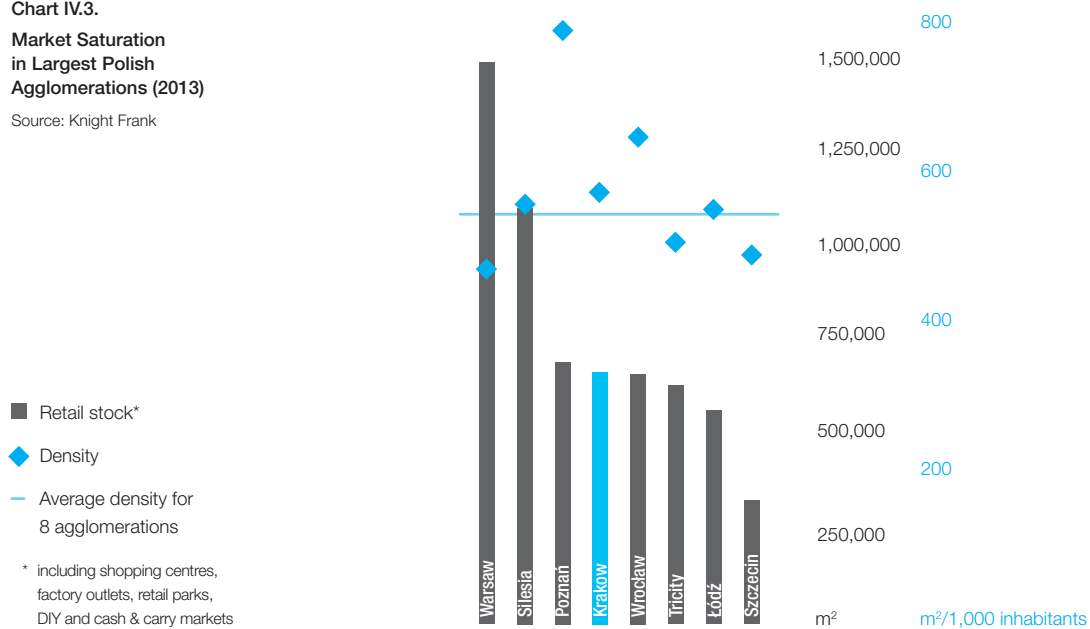
**Table IV.1.**  
**Largest Retail Projects**  
**in Krakow Completed**  
**in 2009-2013**

Source: Knight Frank

Project name	Developer	GLA (m <sup>2</sup> )	Completion date
Galeria Bronowice	Auchan	60,000	Q4 2013
Futura Park & Factory	Neinver	44,000	Q4 2011
Makro Cash & Carry	Makro Cash & Carry	13,000	Q4 2011
M1 (extension)	Metro Group	9,000	Q4 2011
IKEA (extension)	IKEA	16,000	Q2 2011
CH King Square	Inter-Bud	13,400	Q4 2010
Bonarka City Center	TriGranit	91,000	Q4 2009

Chart IV.3.  
Market Saturation  
in Largest Polish  
Agglomerations (2013)

Source: Knight Frank







Retail space saturation in Krakow has increased significantly over the last year. At the end of 2013 saturation soared to a level of 573 m<sup>2</sup>/1,000 inhabitants, while the average market saturation for the eight largest agglomerations in Poland amounted to 550 m<sup>2</sup>/1,000 inhabitants. In comparison to the other Polish agglomerations, the saturation in the city remains at a level comparable to Silesia and Łódź. (Chart IV.3)

Investors conduct prudent analyses before commencing new shopping centres. There are many factors affecting the results including macroeconomic factors such as unemployment rate, purchasing power and microeconomic indicators, such as the location of the project, catchment area, tenant mix or existing and potential competition in the city.

At the end of 2013 there was no retail scheme under construction in Krakow. However, one project remained at an advanced stage of the planning process. Construction of Serenada, a 2<sup>nd</sup> generation shopping centre, should begin in Q2 2014. The project, by Mayland Real Estate, will be located in the Prądnik Czerwony district in the close vicinity of Krokus shopping centre, Multikino and Water Park. The scheme will supply the Krakow retail market with an additional 42,000 m<sup>2</sup> of GLA.

### Rents

Monthly rents in shopping centres in Krakow depend mainly on the unit's location within the scheme, its visibility and size, strength of tenant brand and also often on lease length. In 2013 rents in prime centres were fairly high and stable. Tenants are usually prepared to make large investments and lease retail units in the shopping centre with a strong position in the market, which allows them to get a relatively high turnover when compared to the less prosperous projects. Tenants are obliged to pay monthly rents at the following levels: EUR 20-70/m<sup>2</sup> for units of up to 200 m<sup>2</sup>, EUR 15-40/m<sup>2</sup> for larger units ranging from 201 m<sup>2</sup> and more. Rental levels in DIY stores and hypermarkets are offered for an average of EUR 6-10/m<sup>2</sup>. Additionally, some tenants in shopping centres pay a turnover rent, which ranges between 5% and 8% of their turnover. Taking into account the limited volume of retail space in the pipeline in Krakow, rents are expected to remain stable in 2014.

### Vacancy and Demand

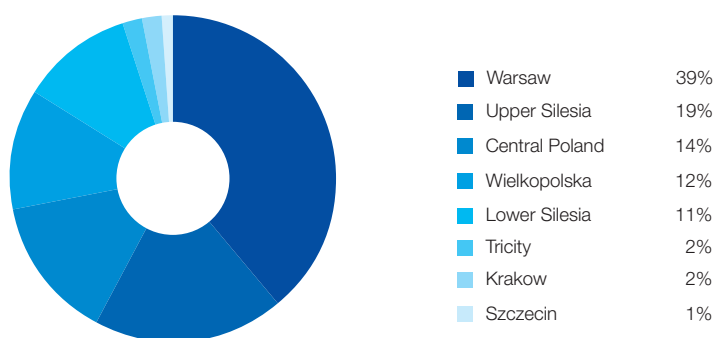
Absorption of retail space in Krakow remained stable in 2013. Consequently the vacancy rate in shopping centres in Krakow in 2013 remained below 5%. Nevertheless the rate in "prime" schemes remained at a lower level.

The retail market in Poland is perceived as attractive by new retail chains which plan to expand into new European markets. In 2013 tens of new exclusive brands opened stores in Poland, e.g. Louis Vuitton, Hollister, Victoria's Secret and American Eagle Outfitters. A number of international retail chains entered Krakow's market in 2013, including, amongst others, Mephisto and Mango Kids. Moreover, international and domestic brands have confirmed their plans to expand their distribution channels in 2014, e.g. Lancerto, GAP, Marc O'Polo, W. Kruk, Hebe, Dr. Irena Eris Institute. As a result, in spite of the unfavourable economic indicators, retail space absorption is expected to remain at comparable levels in the forthcoming months.

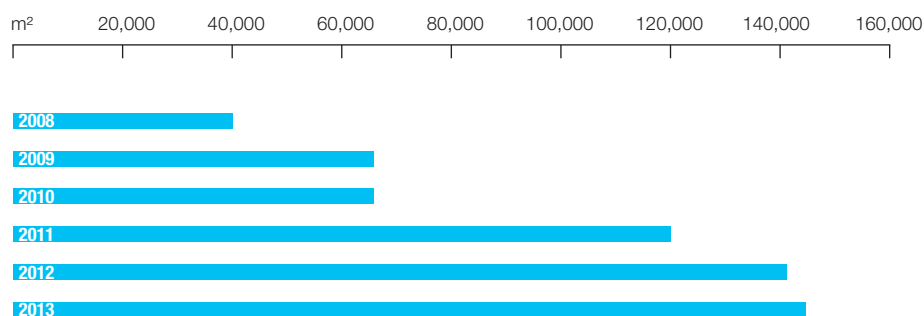
It is expected that in 2014 in Krakow's new warehouse supply will be constructed mainly as built-to-suit (BTS) schemes. However, due to the fact that the existing space is almost fully leased, small projects built speculatively may appear in the market.

A further systematic decrease of vacancy rate in Krakow is expected until developers construct new developments. Limited available warehouse stock in Krakow, no new schemes under construction and relatively large distance for local tenants from Krakow to cheaper logistics locations may result in upward pressure on effective rents.

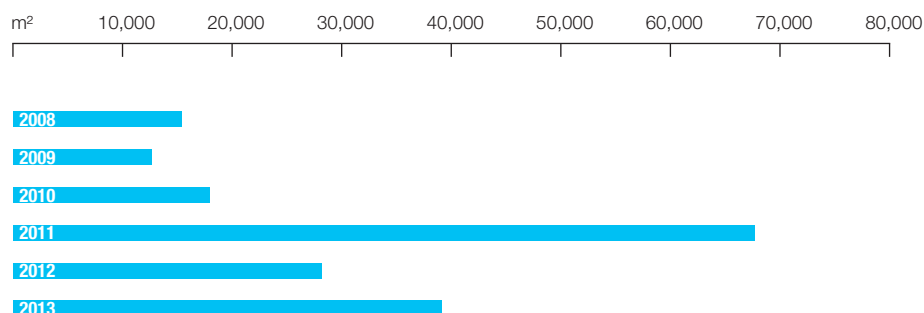
**Chart V.1.**  
Warehouse Stock in Poland by Location (Q4 2013)  
Source: Knight Frank



**Chart V.2.**  
Cumulative Supply of Warehouse Space in Krakow  
Source: Knight Frank



**Chart V.3.**  
Volume of Annual Take-up in Krakow  
Source: Knight Frank





The warehouse market in Krakow is one of the smallest in Poland in terms of existing supply. The region is well situated with roads of national and European significance passing through the city. Due to the fact that Krakow maintains relatively high prices for industrial land and is well connected with cheaper neighbouring logistics regions, such as Upper Silesia, the city has not been perceived as a logistics hub. Future development of infrastructure may present opportunities to establish the region as a stronger logistics area, but regardless, Krakow is expected to maintain its local character.

Krakow benefits from a Special Economic Zone, which covers an area of 628 hectares and includes three of Krakow's districts: Śródmieście, Podgórze and Nowa Huta, and also over 20 municipalities of the Małopolska region (e.g. Skawina, Niepołomice, Zabierzów) and Podkarpackie voivodships (counties). The Krakow Special Economic Zone (KSSE) is a major factor adding to the attractiveness of the region, where business activities can be conducted on special, preferential terms. State support may be granted for setting up new investments or creating new workplaces. 2013 was a record year in terms of the total number of permits issued for establishing new business in KSSE (32 permits), which should translate to nearly 1,300 new jobs and the expenditure of PLN 648 million.

### Supply

At the end of 2013 industrial space offered for rent was estimated at approximately 145,000 m<sup>2</sup>. The region's supply constituted barely 2% of the total warehouse stock identified in the eight largest logistics areas in Poland. 40% of the total logistics stock in the Krakow region is situated within the city's administrative borders with the remaining in adjacent towns including Modlniczka, Skawina, Olkusz and Jawornik.

The Krakow market is dominated by the two largest developers in the country, Goodman and Panattoni, who have already delivered over 50% of the existing warehouse supply in the region. The remaining stock was supplied by local developers such as Małopolska Agencja Rozwoju Regionalnego (MARR), MK Logistic and Biuro Inwestycji Kapitałowych (BIK). [\(Chart V.1\)](#)

In 2013 in the Krakow warehouse market investors activity was limited. Barely 3,500 m<sup>2</sup> of modern logistics space was completed as part of Panattoni Park Krakow. The new project was pre-leased before construction works commenced. Thanks to this extension the total area of the complex increased to 20,500 m<sup>2</sup>. [\(Chart V.2\)](#)

At the end of 2013 there were no warehouse schemes under construction in Krakow. Taking into consideration that the investment process of logistics projects is relatively short, it is expected that 2014 may record higher volume of new logistics supply than 2013. According to information provided by investors, construction work on several new investments will

commence in 2014, e.g. Krakow Kokotów Logistic Centre. The project of 7R Logistic will be their first warehouse in the Krakow region and will be realized as built-to-suit scheme.

Warehouse developers have already secured investment land in Krakow for new warehouse investments. Their land banks will enable them to build over 200,000 m<sup>2</sup> of new logistics space in the region, of which 75% will constitute expansions of existing projects. Almost 50% of this space is to be constructed within the Krakow Airport Logistic Centre. Commencement of new developments will depend mainly on the general economic situation in Poland and also on potential tenants' interest.

It is expected that in 2014 new warehouse supply will be constructed mainly as built-to-suit schemes. However, due to the fact that the existing space is almost fully leased, small projects built speculatively may also appear in the market. This trend is expected across all logistics markets in Poland, including Krakow, where available space for rent is limited.



## Demand

Tenants in Krakow do not at present have the possibility to lease warehouse space larger than several hundred square metres from month to month. Consequently they are obliged to sign pre-lease agreements. In 2013 the total take-up in the region amounted to approximately 40,000 m<sup>2</sup>, an increase of 50% when compared to the previous year. The growth ensued from one large contract for BTS project, totalling 20,000 m<sup>2</sup>. The remaining volume constituted new agreements (of areas 1,500 m<sup>2</sup> to 3,400 m<sup>2</sup>) and renegotiations, amounting to approximately 13,000 m<sup>2</sup> and 7,000 m<sup>2</sup> respectively. (Chart V.3, Table V.1)

## Available Space

At the end of 2013 the vacancy rate in Krakow was one of the lowest among the other logistics concentration areas in Poland and amounted to barely 2%, a decrease by over 4 pp. when compared with Q4 2012. This decline is caused by the gradual absorption of available space in existing projects and the completion of fully-rented schemes. Considering that at the end of 2013 there was no warehouse supply identified under development. Therefore, a further systematic decrease of the vacancy rate in Krakow is expected until developers construct new schemes. (Chart V.4)

## Rental Rates

Monthly asking rents for warehouse space in Krakow 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).

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 the last year and at the end of 2013 ranged from EUR 4 to EUR 4.5/m<sup>2</sup>. Limited available stock, no schemes under construction and the relatively large distance for local tenants from Krakow to cheaper logistics locations may result in upward pressure on effective rents.

Chart V.4.  
Vacancy Rate  
in Krakow  
(year-on-year)

Source: Knight Frank

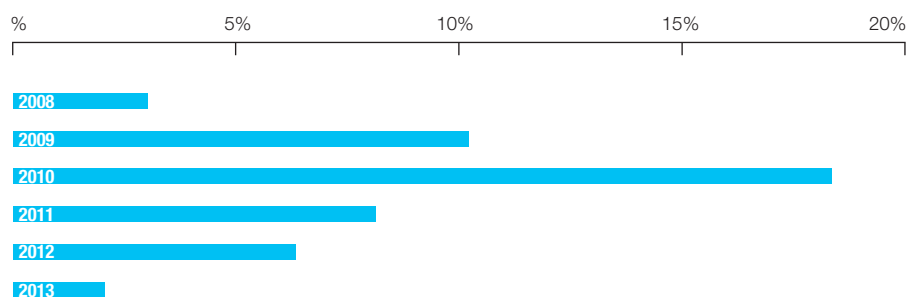


Table V.1.  
Selected Largest  
Warehouse  
Transactions in Krakow  
in the Last Years

Source: Knight Frank

Project name	Developer	Tenant	Leased space (m <sup>2</sup> )/ Lease type	Date of transaction
Krakow Kokotów Logistic Centre	7R Logistic	7R Solution	20,000 / pre-let	2013
Panattoni Park Krakow	Panattoni	Confidential	3,500 / renegotiation	2013
BIK Krakow Logistic Centre II	Biuro Inwestycji Kapitałowych (BIK)	Confidential	2,500 / new	2013
Krakow Airport Logistics Centre	Goodman	DB Schenker Logistics	4,400 / expansion	2012
Krakow Airport Logistics Centre	Goodman	Valeo Service Eastern Europe	16,700 / pre-let	2011
Krakow Airport Logistics Centre	Goodman	Schenker	7,000 / pre-let	2011
Olkusz Logistics Centre	RB Logistics	Iron Mountain Polska	4,200 / pre-let	2011



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Source: Knight Frank

A map of Wrocław, Poland, showing its various districts. The districts are labeled in Polish: Prądnik Biały, Prądnik Czerwony, Mistrzejowice, Wzgórze Krzesławickie, Bieńczyce, Nowa Huta, Czyżyny, Grzegórzki, Stare Miasto, Zwierzyniec, Bronowice, Krowodrza, Dębniki, Podgórze, Łagiewniki, Podgórze Duchackie, Bieżanów-Prokocim, and Swoszowice. Overlaid on the map are ten blue circular callouts, each containing a white number representing the population of a specific district. The numbers are: 73 600 (top left), 53 800 (top left-center), 119 700 (top center), 26 800 (top right-center), 100 700 (center), 37 200 (center-right), 37 100 (bottom left), 98 400 (bottom center), and 37 200 (bottom center-right). A light blue line representing the Vistula River flows through the city.

District	Population
Prądnik Biały	119 700
Prądnik Czerwony	100 700
Mistrzejowice	26 800
Wzgórze Krzesławickie	37 200
Bieńczyce	37 200
Nowa Huta	37 100
Czyżyny	37 200
Grzegórzki	37 200
Stare Miasto	100 700
Zwierzyniec	53 800
Bronowice	53 800
Krowodrza	53 800
Dębniki	37 100
Podgórze	37 200
Łagiewniki	98 400
Podgórze Duchackie	37 200
Bieżanów-Prokocim	37 200
Swoszowice	37 200

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