



**KRAKOW  
REAL  
ESTATE  
MARKET  
2014**



**Partner**

Knight Frank  
Regional Office Krakow  
Monika Suldecka-Karaś  
e-mail: [monika.suldecka@pl.knightfrank.com](mailto:monika.suldecka@pl.knightfrank.com)  
Research  
Elżbieta Czerpak  
e-mail: [elzbieta.czerpak@pl.knightfrank.com](mailto:elzbieta.czerpak@pl.knightfrank.com)

Graphic Design: Advert Studio  
Photo: Anna Kaczmarz (pages: II, 10, 11, 12)  
Rafał Lewandowski (pages: 2, 3, 15)  
Wiesław Majka (pages: cover, 4, 5, 13, 17)  
Marcin Sigmund (pages: 7, 8, 18)  
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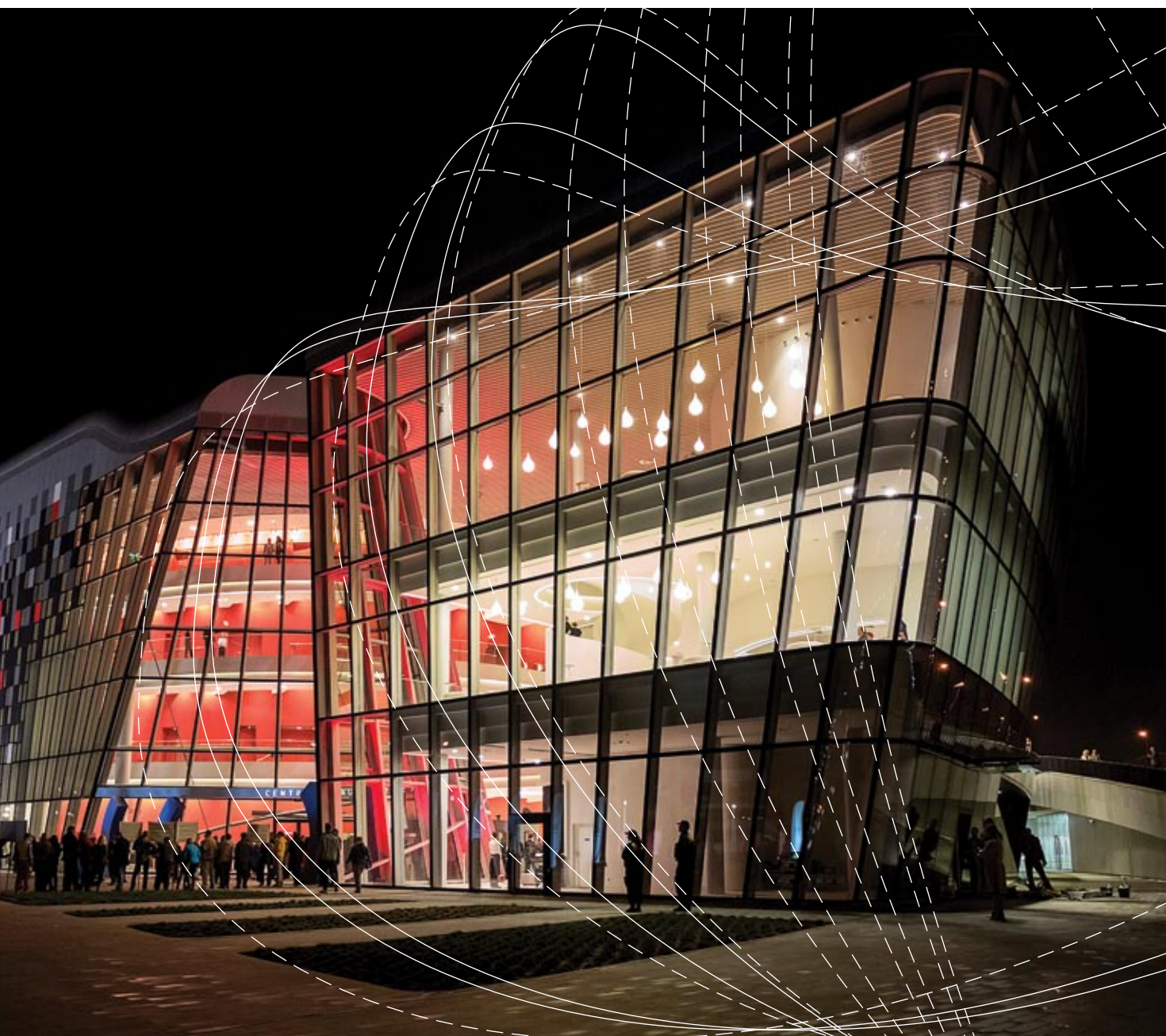
**Prices**

Prices in the report are quoted in PLN or EUR, depending on the transaction; often one of the currencies is referred to as the basis for defining the value. Average currency exchange rates are published every day on the website of the National Bank of Poland ([www.nbp.pl](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 2014 on the housing and land market is to be published on [www.krakow.pl](http://www.krakow.pl) in the business tag in May 2015.



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# LADIES AND GENTLEMEN,

I am pleased to present you with *Krakow Real Estate Market 2014*, the latest cyclic publication of the Municipality of Krakow. The publication presents a comprehensive analysis of changes with regard to commercial space – offices, hotels, warehouses and large stores – which occurred in our city in the past year.

Krakow addresses the needs of business and responds to changes in the global economy. The development of the real estate market is correlated with the economic development of the city. Investments planned create demand for new commercial spaces such as offices and warehouses. Krakow is a European leader in the field of outsourcing. The appeal of the region in terms of investment generates development in the office real estate market. The rise in the number of tourists visiting the city is reflected in the creation of new hotels.

Our report will provide you with a closer look at the specific nature of the real estate market in Krakow, and can thereby assist in making investment decisions.

Enjoy the reading!

**Elżbieta Koterba**

Deputy Mayor of the City of Krakow  
for City Development



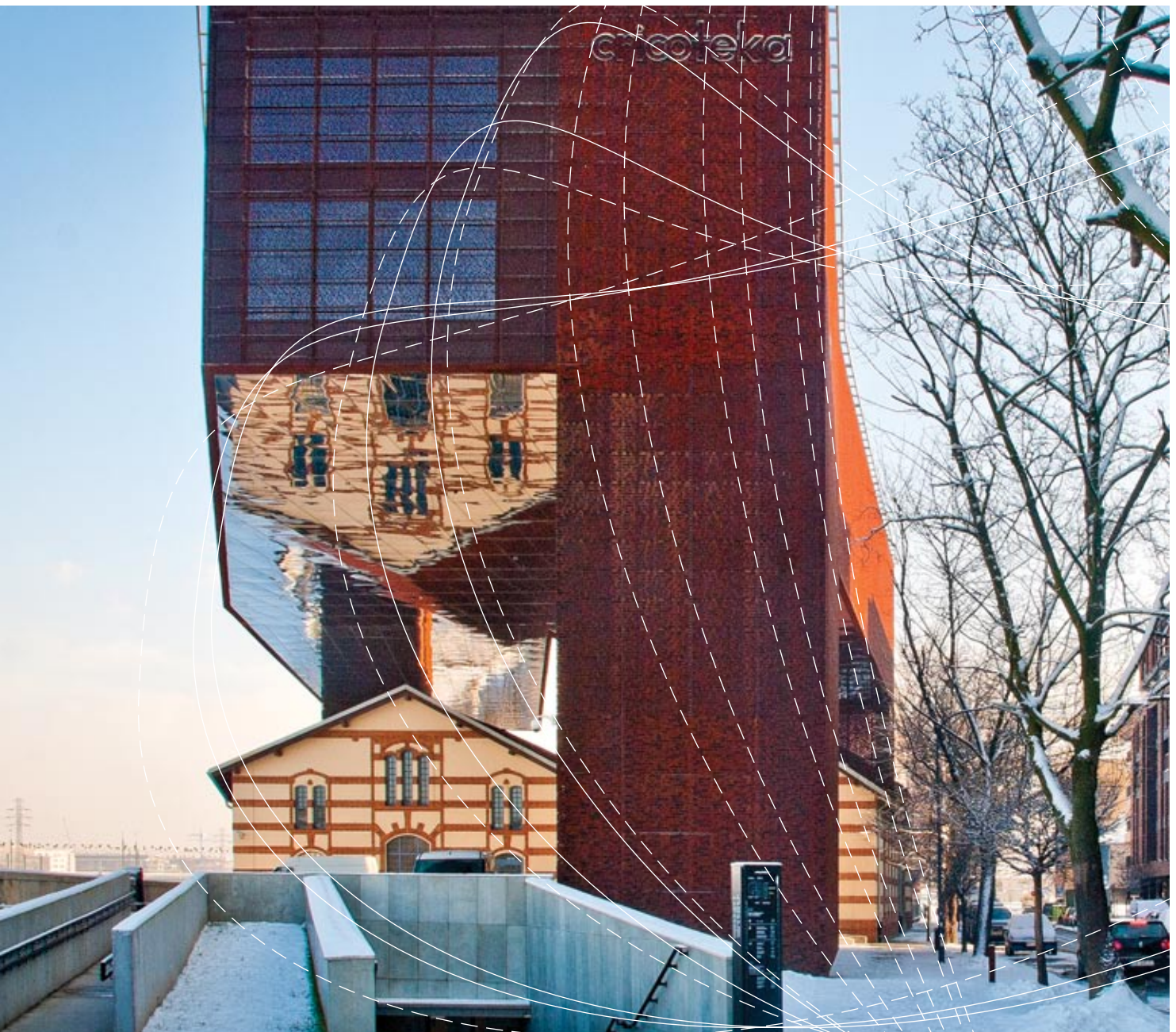
## ABOUT KRAKOW

Krakow is the second largest city in Poland and the principal centre of Małopolska. It was the medieval capital of the country and the seat of Polish kings, with monuments preserved from this period being a vital component of the timeless appeal of the city. Krakow's historic districts – the Old Town, Kazimierz and Stradom – have been entered on the UNESCO World Heritage List, while one of the newest districts – Nowa Huta – is an example of a communist industrial town. For these reasons, Krakow is one of the most frequently visited cities in Poland and Europe, regularly occupying leading positions in rankings of tourist appeal. In 2014 it was visited by nearly 10 million

people. It is not only the number of tourists, however, that makes the city one of the strongest economic centres in Poland.

Major advantages contributing to the economic development of Krakow include:

- a convenient geographical location
- favourable demographic indicators
- the availability of qualified staff
- a thriving special economic zone
- attractive investment areas
- new facilities for public events – a sports and entertainment hall, the ICE Congress Centre
- the extent of the real estate market
- a developed business services sector
- R&D facilities





Krakow is located in southern Poland, at a crossroads of major transport routes, close to the Silesian agglomeration. The A4 motorway, which runs through Krakow, connects the city with Germany and Ukraine. The International Airport in Krakow – the largest regional airport in Poland – is located approx. 10 km from the city centre. In 2014 the airport handled almost 3.8 million passengers.

The capital of Małopolska has 760,000 residents, who together with the large number of students and those staying for shorter periods of time constitute a population of over one million people. Thanks to a positive migration balance and population growth, the number of residents continues to rise. It is worth mentioning in particular the demographic potential of the Krakow region – approx. 8 million people live within 100 miles of the city. Together with the nearby Silesian agglomeration this is an important potential market, increasing the economic significance of the city.

Krakow is one of the most important academic centres in Poland. In 2014 the universities employed almost 12,000 people representing academic staff, including 1,400 professors. The city is the seat of the National Science Centre, which aims to promote activities in the field of basic research. Within the framework of cooperation between the local government, science and business, economic development is supported by research and development

centres and clusters bringing together companies, universities and cooperating research units. The 22 institutions of higher education are attended by almost 200,000 students, and every year approx. 50,000 young people complete their education and enter the labour market. Many graduates are employed in the modern services sector, which is thriving in the city.

In 2014 approx. 6,000 new jobs were created in the BPO sector. At almost 100 companies operating in Krakow 38,000 people were employed providing services to 94 countries in 36 languages. In 2015 Krakow was once again recognized by Tholons as the best location for the BPO sector in Europe and maintained ninth position in the world ranking.



Krakow's strong economy, focused mainly on the services sector, has been recognized by the rating agency Standard & Poor's, which in 2014 confirmed the long-term international rating of Krakow at the investment level A- (stable outlook). This level corresponds to the rating of Poland for foreign currency debt and is the highest achievable by a local authority in the country.

Krakow is more than an important economic centre – it is also a centre for culture. In 2013 the capital of Małopolska was granted the title of UNESCO City of Literature. Every year dozens of local and international festivals are organized, attracting numerous participants from

home and abroad. Conference facilities are also developing rapidly, with meetings, conventions and symposia being organized in Krakow. In 2014 the ICE Congress Centre was put into operation – a modern facility that meets the highest standards of international congress organizations. It is possible to host at the Centre all kinds of congresses, conferences and cultural events. The ICE is a response to the growing interest in the city as a business tourism destination. Another new venue for the organization of such events – above all sporting events – is the Krakow Arena sports and entertainment hall with its 15,000 seats. This is the largest indoor sports and entertainment facility in Poland and one of the most modern in the world.







Pro-investment initiatives are supported by the cooperation of companies, local communities and local government, resulting from the city's development strategy, as well as the involvement of local self-government, together with the Krakow Technology Park, in the project *SMART\_KOM. Krakow in the network of smart cities*. This involves the creation of the Smart City strategy for the Krakow Metropolitan Area, aimed at determining priorities for the development of the city of Krakow as a smart city: using modern technology and investing in social capital and communications infrastructure in order to ensure sustainable economic development and a high quality of life for its residents.

One of the projects fulfilling the assumptions of the Smart City is the strategic venture *Krakow – Nowa Huta Przyszłości*, carried out in cooperation with the local and provincial governments. In December a municipal company was founded to coordinate project activities. Its goal is to revitalize over 550 ha of post-industrial land, utilize the terrain of the former steelworks protection zone and open the area of Nowa Huta for future investment, including the development of modern business services.

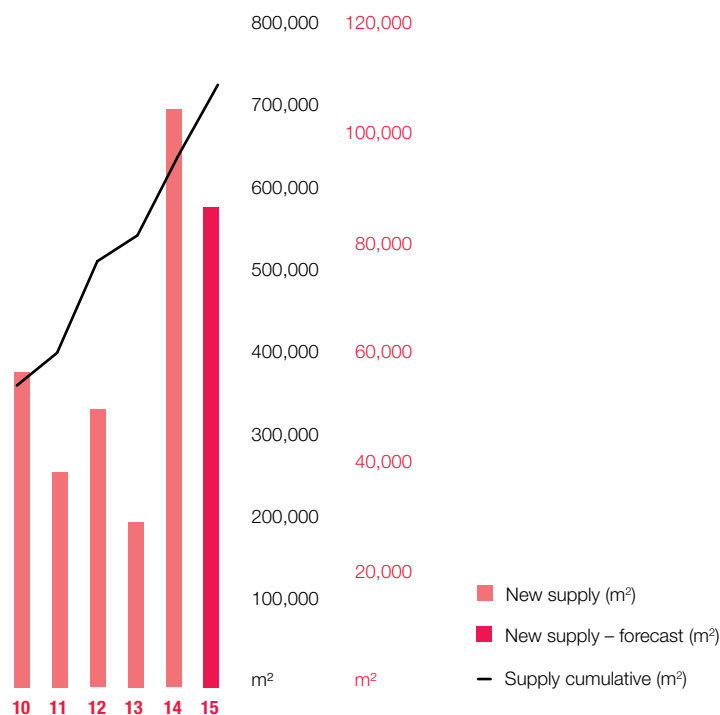
Comprehensive help for businesses at every stage of the investment process – from site selection through to the acquisition of building permits – is provided by the Investor Service Centre in the Municipality of Krakow.

2014 was a record-breaking year in the Krakow office market in terms of new supply and volume of lease transactions. The positive market sentiment seems to be continuing and levels of developers activity remain high – in 2014 the total office stock in the capital of Małopolska exceeded 700,000 m<sup>2</sup> with a significant number

of new projects under construction or at the planning stage. However, thanks to the strong demand driven by companies from the BPO/SSC sector, the vacancy rate still remains at the lowest level among the major regional markets and an increase in asking rents is not expected in the forthcoming months.

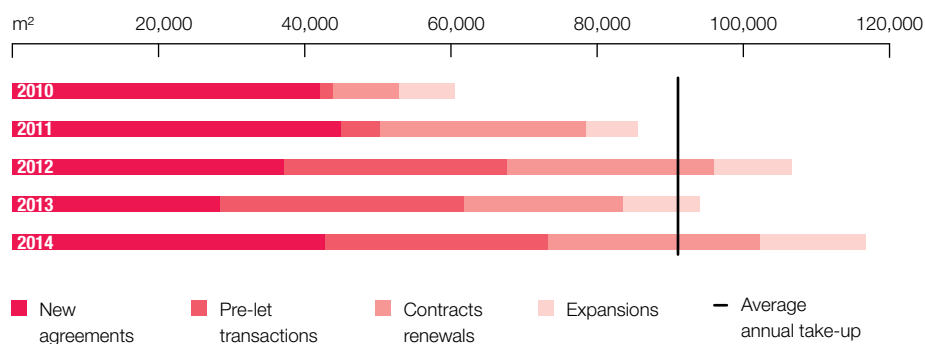
**Chart II.1.**  
Annual and cumulative supply of rentable office space in Krakow (2010-2015)

Source: Knight Frank, WRF



**Chart II.2.**  
Structure of lease transactions concluded in Krakow (2010-2014)

Source: Knight Frank, WRF



**Table II.1.**  
The largest office buildings completed in Krakow in 2014

Source: Knight Frank, WRF

Scheme	Location	Rentable office area (m²)	Developer/Owner
Kapelanka 42	42 Kapelanka St.	28,200	Skanska/REINO Dywidenda FIZ
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 Development Office
Alma Tower	6a Pilotów St.	11,000	UBM AG
Avia	41 Jana Pawła II Av.	10,100	GD&K
Orange Office Park – Rotterdam	1 Klimeckiego St.	7,500	East-West Development Office
Pascal	56 Przybyszewskiego St.	5,250	GTC





## Supply

As of the end of 2014, Krakow has maintained its leading position among the major regional office markets. The total modern office stock in the city was estimated at approximately 713,600 m<sup>2</sup>, of which some 642,600 m<sup>2</sup> was rentable.

Only 16% of the office space in Krakow is situated in the city centre, with the remaining 84% in non-central locations: the southern part of *Prądnik Biały* and *Prądnik Czerwony* districts together with the area along *Armii Krajowej* Street in the north and the western part of *Podgórze* district, the northern part of *Podgórze Duchackie* district, and the northern part of *Podgórze* district in the south. (Chart II.1)

In 2014 twelve new office developments were completed in Krakow, offering a record breaking volume of 105,200 m<sup>2</sup> of new rentable space. The majority, apart from two small schemes, is situated outside the city centre. (Table II.1)

As of the end of December 2014, there was approximately 127,600 m<sup>2</sup> of office space (which will be available for lease) under construction in 14 new schemes, comprising both single office buildings and later stages of large office complexes. Taking current development schedules into consideration, the assumption can be made that in 2015 some 87,400 m<sup>2</sup> of new office supply will be delivered to the market and the total office stock in Krakow may exceed 800,000 m<sup>2</sup>. Furthermore, approximately 40,200 m<sup>2</sup> of space is scheduled for completion in 2016.

## Demand

Robust levels of tenant activity continued in Krakow in 2014. The take-up noted over the 12 months amounted to a record-breaking 116,800 m<sup>2</sup> and was 24% higher than recorded in 2013 and approximately 27% higher than average annual volume of lease transactions observed over the last five years. Similarly to previous years, in 2014 new leases and pre-let transactions constituted the most significant share of concluded agreements – 37% and 26% respectively. 25% comprised renewals, while the remaining 12% was the subject of expansions. (Chart II.2)

Consistently, demand for office space in Krakow has come primarily from companies within the BPO/SSC, IT and professional services sectors. Krakow remains the leader amongst Polish cities in terms of scale of employment and number of entities operating in this sector.

According to Knight Frank's estimations almost 40% of office space in the capital of Małopolska is occupied by companies from the BPO/SSC sector. This percentage will probably increase due to the fact that Krakow maintained its 9<sup>th</sup> position in the world and 1<sup>st</sup> in Europe in 2015 Tholons Top 100 Outsourcing Destinations, which lauds the potential of the city and its attractive offer for foreign investors. (Table II.2)

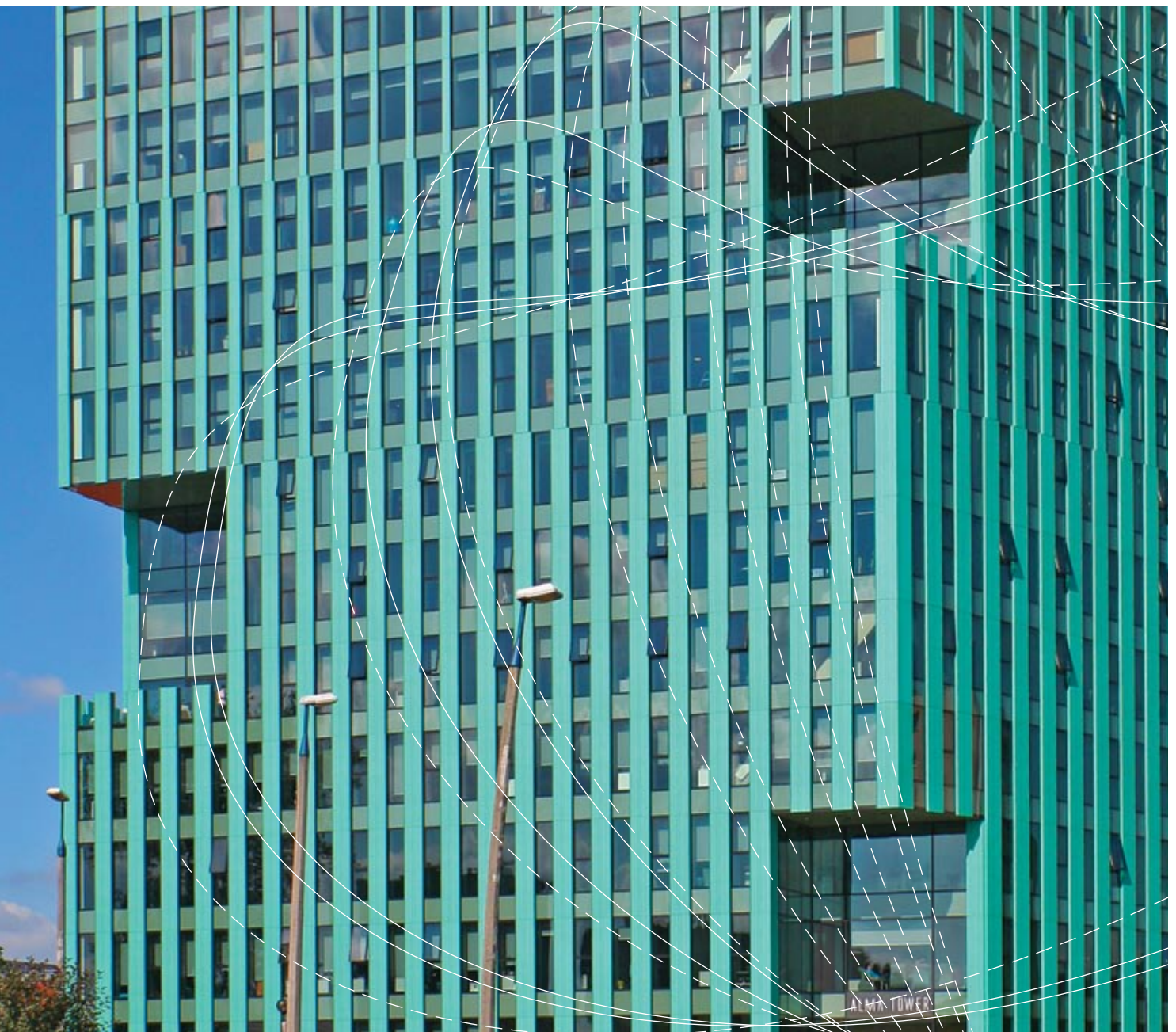
#### **Vacancy rate**

Krakow has recorded the lowest vacancy rate amongst all major Polish office markets since 2012. As of December 2014, only 35,400 m<sup>2</sup> of the office stock was available for lease in Krakow, some 5.5% of the total rentable stock. The vacancy

rate has remained at a comparable level throughout the last two years despite the record volume of new supply delivered to the market in 2014. Additionally, the net absorption at a high level of 97,900 m<sup>2</sup> indicates that almost all new supply has been systematically absorbed by the market, which confirms the positive market sentiment and tenants interest in Krakow as a location for their businesses. (Chart II.3)

#### **Rents**

Asking rents in Krakow remain stable in most buildings. Average rents in A-class buildings range between EUR 13.5-14.5/m<sup>2</sup>/month while accommodation in B-class stock is most often priced between EUR 10-12/m<sup>2</sup>/month.

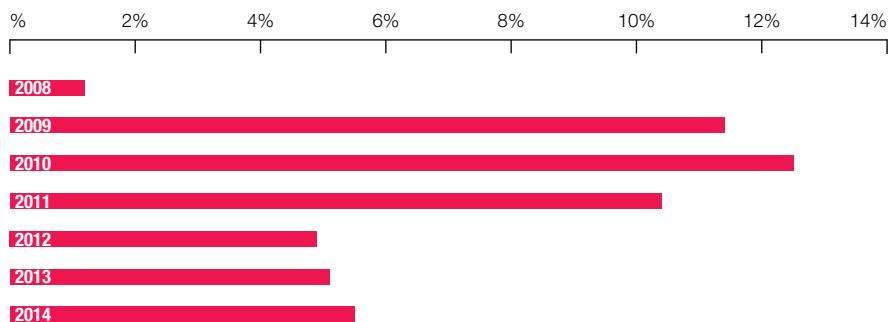




Date of transaction	Property name	Tenant	Office area (m <sup>2</sup> )	Lease type
Q1 2014	Kapelanka 42	HSBC	10,500	Pre-lease
Q2 2014	Enterprise Park C	Confidential	5,600	Pre-lease
Q4 2014	Onyx	Electrolux	5,000	Renewal
Q3 2014	Diamante Plaza	AON Hewitt	4,400	Renewal
Q3 2014	Kapelanka 42	Genpact	4,200	New lease
Q1 2014	Quattro Business Park D	Google	4,000	Pre-lease

**Table II.2.**  
**Selected largest leases concluded in 2014 in Krakow**

Source: Knight Frank, WRF



**Chart II.3.**  
**Vacancy rate in Krakow (2008-2014)**

Source: Knight Frank

Effective rates are typically 10-20% below the asking level, while rent-free periods granted to tenants have varied on average from 3 to 6 months in case of 5-year contracts.

#### **Krakow office market versus other major regional markets**

Poland has seen dynamic development of its office market in major regional cities. Krakow remains the leader in terms of total stock, new supply, annual take-up and low vacancy rate; though the other cities also attract developers' and investors' interest. Office demand remains strong and the volume of office space under construction as of December 2014, reached a record level of 446,000 m<sup>2</sup>, of which 322,700 m<sup>2</sup> is scheduled for 2015, giving Krakow an almost 30% share in both categories.

The vacancy rate in major regional cities ranges from 5.5% in Krakow to 14.7% in Poznań and in Katowice.

Asking rents in Krakow remain at a comparable level to other major regional cities.

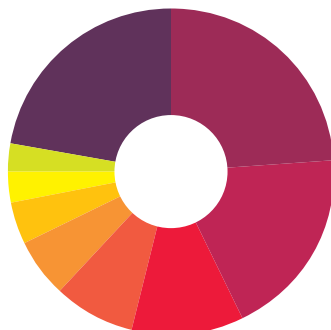
In 2014, investors' interest in the Krakow office market achieved the highest levels among the Polish regional office markets. Five transactions were concluded in the local market, approaching EUR 223 million in total, which accounted for 13% of the annual transaction volume in the office sector in Poland. Thereby Krakow has outdistanced Wrocław, where only two transactions amounting to EUR 64.7 million were concluded in 2014. Price of prime office properties in Krakow ranges between EUR 2,400-2,500/m<sup>2</sup>.

Krakow is one of the oldest and the second largest city in Poland. It is full of enticing attractions, from museums and art galleries to religious and historical buildings, picturesque streets, superb shopping centres and a thriving nightlife scene. Thanks to its cultural wealth, Krakow has been

registered as one of the 12 sites on the UNESCO World Heritage List. By the virtue of the city's geographical location, Krakow has becoming the meeting place of many nations and cultures, and has a position as a Central European metropolis, a city of culture, science and art.

**Chart III.1.**  
**Share of meetings and events in Poland by selected cities in 2013**

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



Gdańsk	24%
Krakow	19%
Poznań	11%
Wrocław	8%
Sopot	6%
Warsaw	4%
Kielce	3%
Łódź	3%
other cities	22%







### Tourism in Krakow

The numbers published by the Małopolska Tourism Organisation and the Municipality of Krakow show that approximately 10 million visitors (7.6 million tourists) visited Krakow in 2014, an annual increase of 7%. Domestic visitors accounted for 73% (increase of 8.2%) while foreign visitors amounted to 27% (increase of 3.9%). Krakow was especially popular among foreign visitors from the United Kingdom (17%), Germany (16%), Spain (11%) and Italy (10%).

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 2014, over 90% of visitors stayed in tourist accommodation facilities in Krakow (an annual decrease of approximately 3%). However, it should be mentioned that the share of visitors staying in officially registered hotels has increased by 9% and in motels and guesthouses by approximately 3%. In 2014, the city recorded a decrease (by approximately 4%) in the number of visitors who stayed in Krakow for more than one day. Moreover, they spent PLN 300 million less than the year before.

Krakow is the most attractive tourist destinations in Poland, where over 40 different festivals, 2,500 various performances and concerts take place annually. The city's popularity has been growing thanks to various developments, including Krakow Arena, Expo Krakow or just-opened ICE Krakow Congress Centre. The enlargement (increase of the capacity up to 8 million passengers annually) and restructuring of the Krakow Airport's terminal (which is going to be completed in 2015) is the additional asset. Till the end of 2014, the Krakow Airport served 3.8 million passengers (5% growth while compared to the previous year). It is expected that 2015 shall be a record-breaking year.

In the coming years, tourist promotion of Krakow will experience a significantly increase in view of the European Meetings and Events Conference in 2015 and due to organization of World Youth Day in 2016. The re-launch of British Airways and Swiss International Air Lines (Krakow – Zurich route) in 2015 shall also have a significant influence on the tourist market.

The report "Przemysł spotkań i wydarzeń w Polsce – Poland Meeting & Events Report 2014"<sup>1</sup> shows that Krakow occupies second place (following Gdańsk) with regard to the total number of conferences/ congresses, corporate events, incentive events, fairs/exhibitions that took place in 2013 (3,413 events – a 19% market share).

(Chart 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 2014)**

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	418	797
★ ★	17	779	1,506
★ ★ ★	77	3,481	6,318
★ ★ ★ ★	32	3,228	5,634
★ ★ ★ ★ ★	10	1,047	1,847
<b>Total</b>	<b>142</b>	<b>8,953</b>	<b>16,102</b>







### Hotels in Krakow

Krakow offers its visitors a wide selection of overnight accommodation. The accommodation base has been constantly growing. According to the data published by the Central Hotel Register in Poland, supervised by the Ministry of Sport and Tourism, there were 142 officially recognised hotels, of 1- to 5-star, operating in Krakow at the end of 2014. The accommodation base of Krakow consisted of 9,000 hotel rooms which offer 16,100 beds. Since the end of 2013, these numbers have increased by 3 hotels, 700 hotel rooms and 900 beds.

As well as hotels, several other types of accommodation of various standards and categories can be found, e.g. youth hostels, boarding houses, excursion hostels or condo hotels<sup>2</sup>. They provide strong competition to hotels, mostly due to their comparative standard and lower prices.

(Table III.1)

The largest share in the Krakow's hotel market still have 3-star hotels, both in terms of the number of projects (54% of the total number of the hotels in the city) and the number of hotel rooms (39%). (Chart III.2)

In 2014, in 7 projects (two 3-star, three 4-star and two 5-star schemes) there were offered the largest number of hotel rooms in Krakow, more than 200 units each. These hotels have in their offer over 2,870 beds in total (which constitutes 18% of the total room number in all Krakow's schemes), from 228 beds in Chopin Hotel to 610 beds in Novotel Krakow City West. In contrast, the Krakow's hotel stock includes 25 smaller hotels offering 20 rooms or less, totalling 779 bed-places, e.g. Hotel Pugetów (10 rooms) or Panorama (20 rooms).

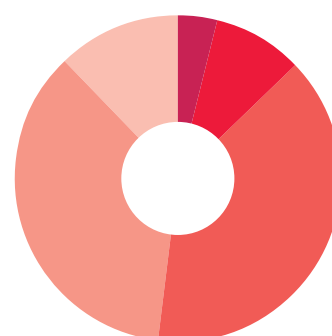
In Q4 2014, Hilton Garden Inn Krakow Airport Hotel (4\*), a 5-storey building located in suburbs of International Airport Krakow Balice, was opened in Krakow. The development offers 155 hotel rooms (200 bed-places) and conference area of 750 m<sup>2</sup>. At the same time, Ibis Krakow Stare Miasto, offering 135 rooms and 190 bed-places, has been upgraded from 2 to 3 stars.

Chart III.2.

### Number of hotel rooms in Krakow by standard (Q4 2014)

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

★	4%
★★	9%
★★★	39%
★★★★	36%
★★★★★	12%



<sup>2</sup> Condo hotel also known as a hotel-condo or a contel, is a building, which is legally a condominium but which is operated as a luxury hotel, offering short term rentals

### Hotels in the pipeline

The number of Krakow's visitors has been growing. This trend is reflected in the number and quality of hotels currently in the pipeline. At the end of 2014, five hotels under construction were identified: DoubleTree by Hilton Krakow Hotel & Convention Center and Hampton by Hilton (4-star) – designed as one building – Hotel na Kazimierzu (4-star), Q Hotel Krakow (3-star) and Best Western Plus Q (4-star). Based on the development schedules, construction of these five hotels should be completed in 2015, thus increasing Krakow's stock by additional 725 hotel rooms in total.

Due to a significant number of visitors each year and income perspectives, at the end of 2014, six hotels were identified at the planning stage in Krakow, though, according to information provided by investors, the dates of the construction works in most cases are still not acknowledged. Some of the hotels were at the initial stage of designing process.

### Krakow hotel market versus selected cities in Poland

When compared to other Polish cities, Krakow can boast the largest number of officially categorised hotels, significantly exceeding Warsaw's total.

Table III.2.  
Hotels in selected cities by standard (2014)\*

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	10	2	5	1	3	1
★ ★	17	23	18	8	8	10	5
★ ★ ★	77	37	34	31	22	15	8
★ ★ ★ ★	32	18	12	12	7	5	7
★ ★ ★ ★ ★	10	16	3	6	4	-	1
<b>Total</b>	<b>142</b>	<b>104</b>	<b>69</b>	<b>62</b>	<b>42</b>	<b>33</b>	<b>22</b>

Table III.3.  
Average room prices in hotels in Poland in 2014

Source: Knight Frank on the basis of Trivago

City	Krakow	Warsaw	Gdańsk	Poznań	Wrocław	Łódź	Katowice
Price (PLN)	251	251	235	230	222	193	184
Change year-on-year	3%	-5%	2%	6%	-5%	-8%	-6%

Table III.4.  
Average room prices in hotels in selected cities in Europe in 2014

Source: Knight Frank on the basis of Trivago

City	Paris	Brussels	Prague	Berlin	Budapest	Riga	Vilnius	Krakow	Sofia
Price (PLN)	691	490	472	394	318	302	298	251	239
Change year-on-year	0%	4%	1%	7%	9%	2%	2%	3%	0%





The biggest disproportion has been noted in the number of higher standard hotels (3- and 4-star) – the most popular among visitors. However, in all major cities the growth in the number of such assets has recently been observed on a yearly basis, the number of Krakow's hotels of this standard exceeded more than twice the amount of any other analysed city at the end of 2014. (Table III.2)

According to Trivago, one of the world's largest hotel search engines, the overnight accommodation price for a standard double room in hotels in Poland fell by 5% year-on-year<sup>3</sup> in 2014. The downward trend results mainly from a great competition in the hotel market which is the result of the increasing

number of new and cheaper projects. In 2014, the average nightly room price amounted to PLN 251 in Krakow (an increase by 3% year-on-year). Nevertheless, the prices for accommodation in Krakow are diversified. The amount depends on such issues as: the standard of the project, location and brand of the hotel (the most recognisable worldwide hotel brands may quote higher prices). (Table III.3)

#### **Hotels in Krakow versus selected cities in Europe**

Compared with selected cities in Europe, Krakow distinguishes itself due to its diversified and attractive accommodation base. The average room price in Krakow, like in Warsaw, amounted to PLN 251.

Despite the fact that Krakow is not the capital city, the high level of tourist interest in relation to the neighbouring European capitals is maintained.

Analysing the prices per night in hotels and similar accommodations in 2014, Krakow was one of the cheapest cities among other European cities despite the 3% increase. The biggest increase in the prices for an accommodation was noted in Budapest (9%) and Berlin (7%). (Table III.4)

<sup>3</sup> Prices were calculated on the basis of over 2 million daily price inquiries for overnight hotel stays generated through the Trivago hotel search

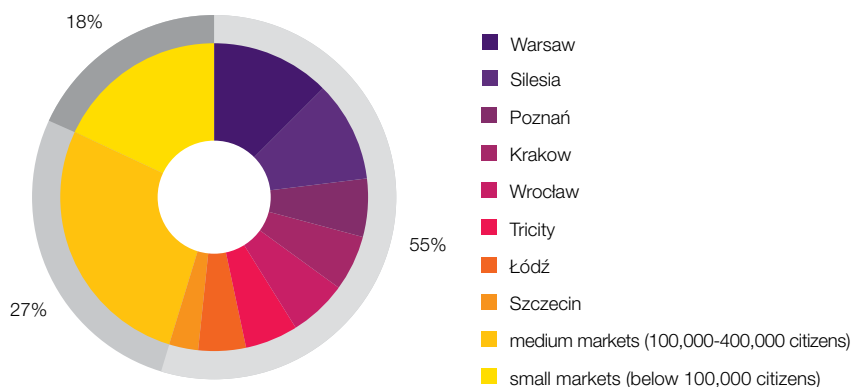
Krakow is one of the oldest and one of the most attractive cities in terms of tourism in Poland, so that there is a significant potential to develop retail market in the city. With the retail supply totalling 685,000 m<sup>2</sup> the city ranks 4<sup>th</sup> in terms of the existing supply within the major markets. Krakow is among only five retail cities in Poland which boast a 4<sup>th</sup> generation shopping centre.

Retail saturation in Krakow stood at the level of 580 m<sup>2</sup>/1,000 inhabitants and was higher than the average noted in the 8 major markets. High street retail in Krakow similarly to the other major cities in Poland remains insufficiently developed. The limited volume of retail space in pipeline will translate into relatively stable asking rents and slight decrease of vacancy rate.

**Chart IV.1.**  
**Retail stock in Poland by markets\* (Q4 2014)**

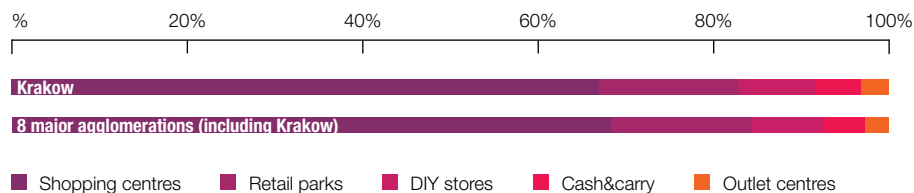
Source: Knight Frank

\* including shopping centres, retail parks, factory outlets, DIY markets, cash&carry



**Chart IV.2.**  
**Share of retail formats in Krakow (Q4 2014)**

Source: Knight Frank







The retail market in the Krakow agglomeration has been developing since the 90's, when the first shopping centres were completed. Over the years, 685,000 m<sup>2</sup> of retail space has been constructed. Besides three schemes located in Modlniczka (Futura Park, Factory Krakow and Leroy Merlin) retail projects in Krakow are situated within the city borders. At the end of 2014, this region constituted 11% of the total retail stock in the largest Polish markets and ranked 4<sup>th</sup> in terms of the existing supply.

In Poland there is over 11.5 million m<sup>2</sup> of modern retail space, of which the major markets (including Krakow) constitute 6.3 million m<sup>2</sup>; another 3.2 million m<sup>2</sup> is located in medium-sized markets (cities of population 100,000-400,000 citizens) and the remaining 2 million m<sup>2</sup> exists in small-sized markets (below 100,000 citizens). (Chart IV.1)

The retail stock in Poland is diversified in terms of formats. Shopping centres are the dominant types of retail premises in Krakow, similarly to the stock structure in the major markets and constitutes over 67% of the market. The largest share comprises 3<sup>rd</sup> generation shopping centres (supermarket or hypermarket with shopping gallery and entertainment area), i.e. Bonarka City Center, Galeria Krakowska, Galeria Kazimierz and Krakow Plaza. Krakow is among only five retail cities in Poland which boast a 4<sup>th</sup> generation shopping centre (project combining shopping gallery with grocery store, cinema, entertainment, leisure and cultural functions). Galeria Bronowice is the latest scheme in the region and offers 60,000 m<sup>2</sup> of retail space. (Chart IV.2)

The share of shopping centres in the total stock should increase in 2016/2017, after the expected completion of the Serenada shopping centre. The Mayland's project will offer approximately 42,000 m<sup>2</sup> of GLA and will be a modern lifestyle shopping and entertainment centre. The scheme together with the neighbouring Krokus shopping centre, OBI market, Multikino complex and Aqua Park will create a new retail destination in Krakow. At the end of 2014, over 60% of the retail space of the project had been pre-leased.

The retail market in the Polish agglomerations is becoming saturated. At the end of 2014, the retail space saturation in Krakow was higher than the average for the 8 major markets. With a density of 580 m<sup>2</sup>/1,000 inhabitants, Krakow ranks 4<sup>th</sup> within the major regions. Upon completion of the Mayland's shopping centre, the saturation ratio in Krakow will soar to 616 m<sup>2</sup>/1,000 inhabitants. (Chart IV.3)

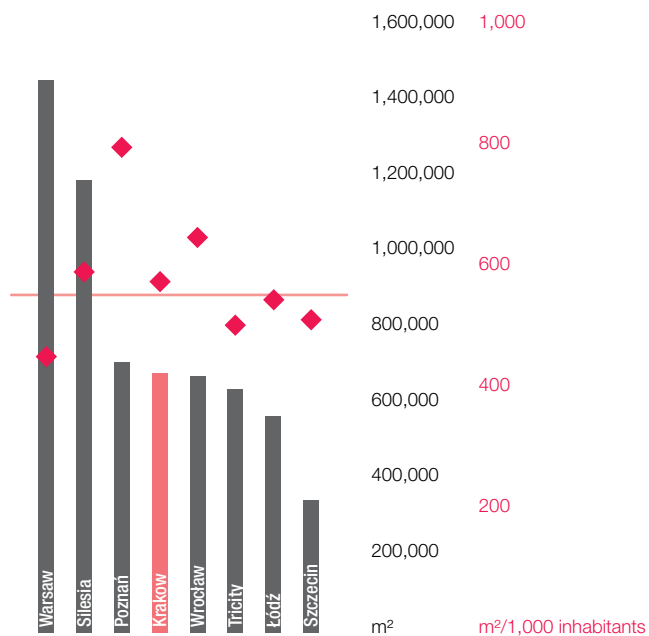


**Chart IV.3.**  
Retail stock  
and saturation  
in the major Polish  
agglomerations  
(Q4 2014)

Source: Knight Frank

■ Stock\*  
◆ Density  
(m<sup>2</sup>/1,000 inhabitants)  
— Average density  
in the 8 major  
agglomerations  
(m<sup>2</sup>/1,000 inhabitants)

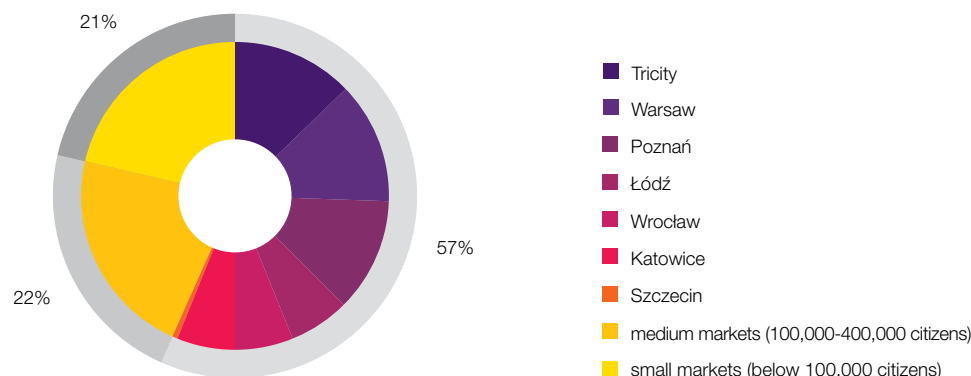
\* including shopping centres,  
retail parks, factory outlets,  
DIY markets, cash&carry





**Chart IV.4.**  
**Retail supply under construction in Poland by markets (Q4 2014)**

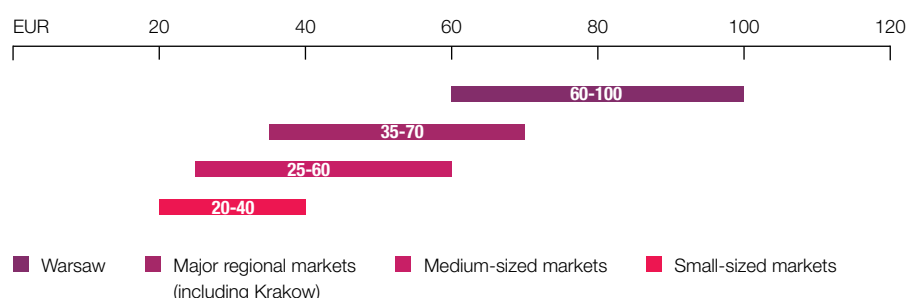
Source: Knight Frank



**Chart IV.5.**  
**Headline rents for prime retail units\* (Q4 2014)**

Source: Knight Frank

\* for retail units below 100 m<sup>2</sup> in shopping centres



Despite the high density in the major agglomerations developers have observed numerous retail opportunities in these markets and have decided to launch new projects, e.g. Apsys has commenced the Posnania shopping centre in Poznań – the city with the highest retail density among the major Polish agglomerations. Consequently, nearly 60% of the retail space currently under construction is located in the largest agglomerations, whereas at the end of 2013 this portion was significantly lower at only 20%. (Chart IV.4)

Approximately 50% of the retail supply in the Krakow region was completed by 2005. Faced with competition from modern malls, landlords of the older schemes have been forced to modernise their assets or to redefine their target group as well as introduce new functions to the schemes (e.g. entertainment and cultural elements) or extend the range of services offered (fitness clubs, post office).

### High street retail

Krakow is one of the oldest and one of the most attractive cities in terms of tourism in Poland. It is also a centre of academic, cultural and artistic life. Thanks to the recognition and “visitability” of the city, retail space is also common in the high streets. The most retail-saturated streets include Floriańska Street, Szewska Street and Grodzka Street, which are characterised by dense pedestrian traffic. Prime units in the streets located on the Main Market Square are occupied by major chain stores and top-end brands offering clothes, shoes or jewellery, but the majority are occupied by restaurants and cafes. However it is assumed that high street retail in Poland remains insufficiently developed.

### Demand and vacancy rate

In 2014 gradual absorption of the available retail space was observed in Krakow. A number of new tenants (e.g. Monnari, Pako Lorente, Forum Sztuki) opened stores in existing malls. Consequently, the vacancy rate in the city decreased slightly when compared to the previous year. Additionally, the majority of the Serenada shopping centre's retail space has been already pre-leased (e.g. by LPP's and Inditex's brands). Due to expectations that the Mayland's shopping centre may be fully leased by the opening date, the vacancy rate in the city should remain unchanged in the forthcoming years. Moreover, several retailers have confirmed their plans to expand their distribution channels to the Krakow market (e.g. Imaginarium, Pure Jatomi Fitness).

### Rents

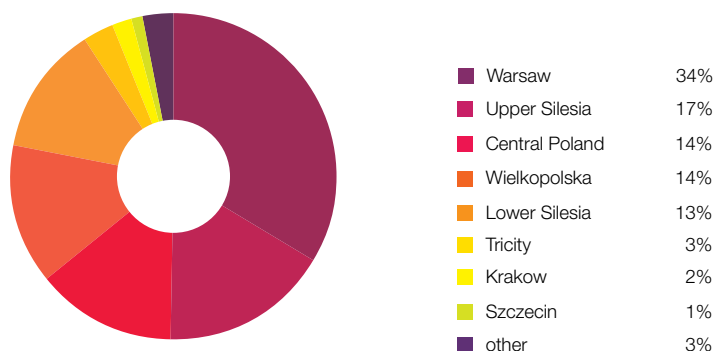
Monthly headline rents for retail space in shopping centres remain fairly stable not only in Krakow but also in the major agglomerations. The highest rents for prime retail units (premises of up to 100 m<sup>2</sup>) in recognised and prosperous schemes are noted in Warsaw and exceed EUR 100/m<sup>2</sup>/month. In the regional cities, including Krakow, the headline rents for retail space stood at a lower level of approximately EUR 35-70/m<sup>2</sup>/month. Rents for larger units are lower and depend on several factors, e.g. unit's size, its location within the project or landlord's rental policy. Due to the relatively high levels of annual supply, the retail market in Poland is perceived as a tenant's market. The owners are forced to offer a wide range of incentives to potential tenants. (Chart IV.5)

2014 has brought a slight revival to the logistics market in Krakow. Developers confirmed the commencement of two projects, one scheme was completed and levels of tenants' activity increased. In 2015, both built-to-suit (BTS) and speculative schemes will be delivered to Krakow's warehouse market. In response to the needs of potential tenants,

the substantial demand in the local market for small warehouse facilities with immediate availability and due to the fact that the existing space is almost fully leased, small-sized projects built speculatively may appear in the market. A further systematic decrease of the vacancy rate in Krakow is expected until developers commence new developments.

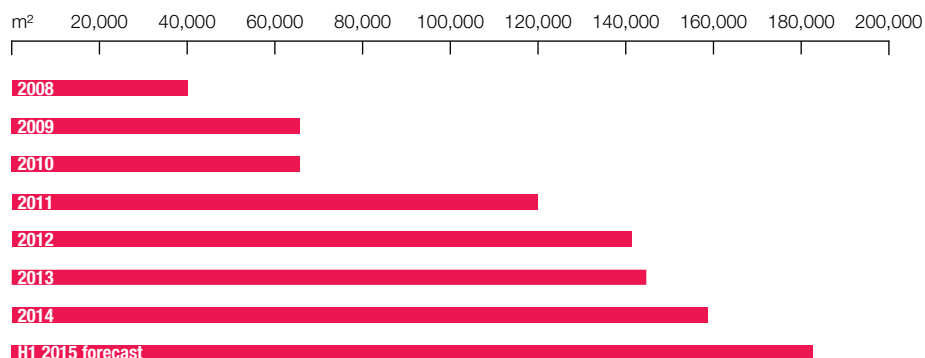
**Chart V.1.**  
Warehouse stock in Poland by location (Q4 2014)

Source: Knight Frank



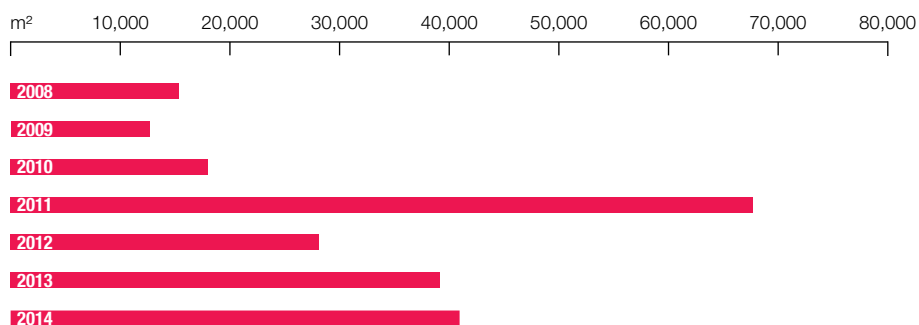
**Chart V.2.**  
Warehouse stock in Krakow (2008-H1 2015)

Source: Knight Frank



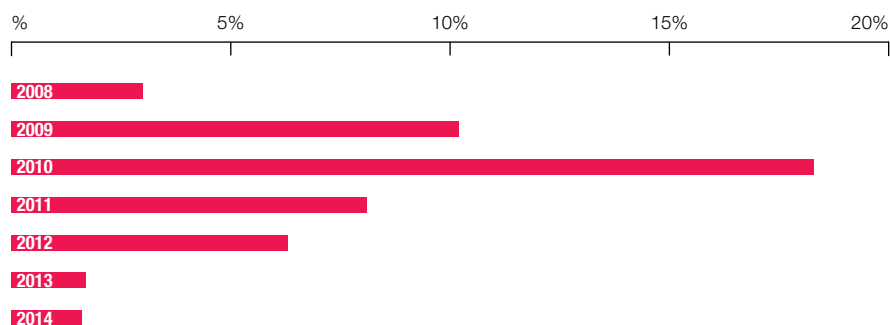
**Chart V.3.**  
Volume of annual take-up in Krakow (2008-2014)

Source: Knight Frank



**Chart V.4.**  
Vacancy rate in Krakow (year-end)

Source: Knight Frank







At the end of 2014, there were two warehouse schemes of approximately 24,000 m<sup>2</sup> in total under development in Krakow. Krakow-Kokotów Logistic Centre (12,600 m<sup>2</sup>) is a BTS project for 7R Logistic while Goodman Krakow Airport Logistic Center, building 2 phase 2, is a speculative scheme. According to information provided by the investors, construction work on the above mentioned investments will be completed in H1 2015.

Many warehouse developers have already secured investment land in Krakow for new 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 over 60% will constitute expansions of existing projects. Commencement of new developments will depend mainly on potential tenants' interest and the prevailing economic conditions.

Taking into account the very low vacancy rate and the lack of vacant space, developers shall be encouraged to invest in new speculative schemes, as there is a great possibility such projects would be secured by pre-let agreements. This trend is expected in all regions of Poland, including Krakow, where there is a lack of free warehouse space.

### **Demand**

At the end of 2014, thanks to the positive situation in the warehouse market and the dynamic level of tenants' activity, there was a lack of vacant warehouse space in Krakow. In 2014, the total take-up in the region amounted to approximately 40,900 m<sup>2</sup> (only 2% of the total take-up in Poland, which is a consequence of the local character of this market). The total take-up in Krakow constituted new agreements of areas from 500 m<sup>2</sup> to 11,200 m<sup>2</sup> (66% of the total take-up) and expansions, amounting to 13,900 m<sup>2</sup> (34%). (Chart V.3, Table V.1)

### **Available Space**

At the end of 2014, the vacant space in Krakow was one of the lowest among the logistics concentration areas in Poland and amounted to 2,500 m<sup>2</sup>. When compared to Q4 2013, a decrease by barely 0.1 pp. has been noted.

The warehouse market in Krakow is one of the youngest and smallest in Poland in terms of existing stock. An attractive location between the highly developed Western Europe and Eastern European countries, with roads of national and European significance passing through Krakow, is an incontrovertible advantage of the city. However, due to the relatively high prices for industrial land, the limited amount of undeveloped land available and good connections with cheaper, neighbouring logistics regions, such as Upper Silesia, Krakow has not been perceived as a modern logistics hub. Further development of infrastructure may strengthen the region's role as a logistic area, but regardless, the city is expected to maintain its local character.

### **Supply**

Warehouse space offered for rent in Krakow at the end of 2014 amounted to approximately 159,000 m<sup>2</sup> (2% of the total warehouse stock in Poland – the share in the Polish market has remained unchanged). The majority of the warehouse space (61% of the total logistics stock in the Krakow region) is situated within the city's administrative borders. The remainder is located in adjacent towns including Modlniczka, Skawina, Olkusz and Jawornik.

The Krakow warehouse market is dominated by the warehouse complexes belonging to Goodman (44% of the market share), MG Logistic (16% of the Krakow's stock) and Logisor, Blackstone's European logistics platform (13% of the total volume), who together own approximately 73% of the existing warehouse supply in the region. The warehouse buildings belonging to Logisor (Blackstone) was sold by Panattoni in Q3 2014. The remaining stock has been supplied by local developers such as Małopolska Agencja Rozwoju Regionalnego (MARR), RB Logistics and Biuro Inwestycji Kapitałowych (BIK). (Chart V.1)

In 2014, in the Krakow warehouse market, investors' activity was limited. Only one project of approximately 11,400 m<sup>2</sup> of modern logistics space was completed as part of Goodman Krakow Airport Logistic Center in Q4 2014. The new project was built on a speculative basis, though nevertheless, is now fully leased. (Chart V.2)

2014 was a record-breaking year in terms of the volume of warehouse space under development in Poland. This upward trend has also been seen in Krakow's warehouse market.

The existing vacant space ready to lease was offered within one scheme only, Business Park Cracovia – Jawornik (which means the vacancy rate was at the level of 1.6%). Due to the fact that both warehouse projects under development are already fully leased (one BTS scheme and one speculative project pre-leased), a further systematic decrease of the vacancy rate in Krakow is expected until developers construct new schemes.  
(Chart V.4, V.5)

## Rental Rates

Monthly asking rents for warehouse space in Krakow depend on a number of factors:

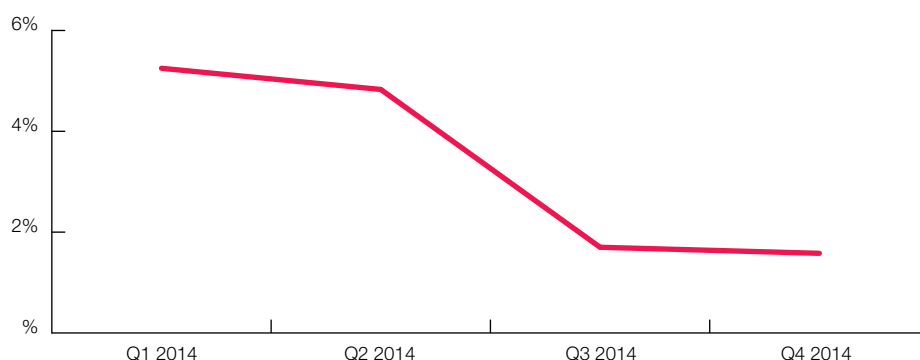
a project's location (access to road infrastructure, distance to the city centre), technical specification (interior height, column spacing, number of docks, floor loading), lease period and the size of the space (a longer lease term and larger leased area translates into lower effective rents).

Krakow remains the second most expensive logistics location in Poland (following Warsaw's Zone 1) in term of lease costs. Due to the fact that majority of warehouse space is located within Krakow's administrative borders and in Small Business Units (SBU) schemes, the asking rent level ranges between EUR 4.0-4.80/m<sup>2</sup>/month (in the only existing vacant space in Krakow – Business Park Cracovia – Jawornik). All "big-box" schemes both existing and under construction are fully leased therefore the average monthly asking rents in Krakow for modern warehouse space could not be stated.

Limited available stock, the very low vacancy rate, the only two schemes under construction being already leased and the relatively large distance for local tenants from Krakow to cheaper logistics locations may result in upward pressure on effective rents.

**Chart V.5.**  
**Vacancy rate**  
**in Krakow in 2014**  
**(quarterly)**

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 Airport Logistics Centre	Goodman	KMC Services	13,000/expansion	2014
Krakow Airport Logistics Centre	Goodman	Confidential	11,200/new	2014
Krakow Airport Logistics Centre	Goodman	Bonito.pl	4,100/new	2014
Centrum Logistyczne Krakow II	BIK S.A.	G4 Garage	2,700/new	2014
Krakow Kokotów Logistic Centre	7R Logistic	7R Solution	20,000/pre-let	2013
Panattoni Park Krakow	Panattoni	Confidential	3,500/renewal	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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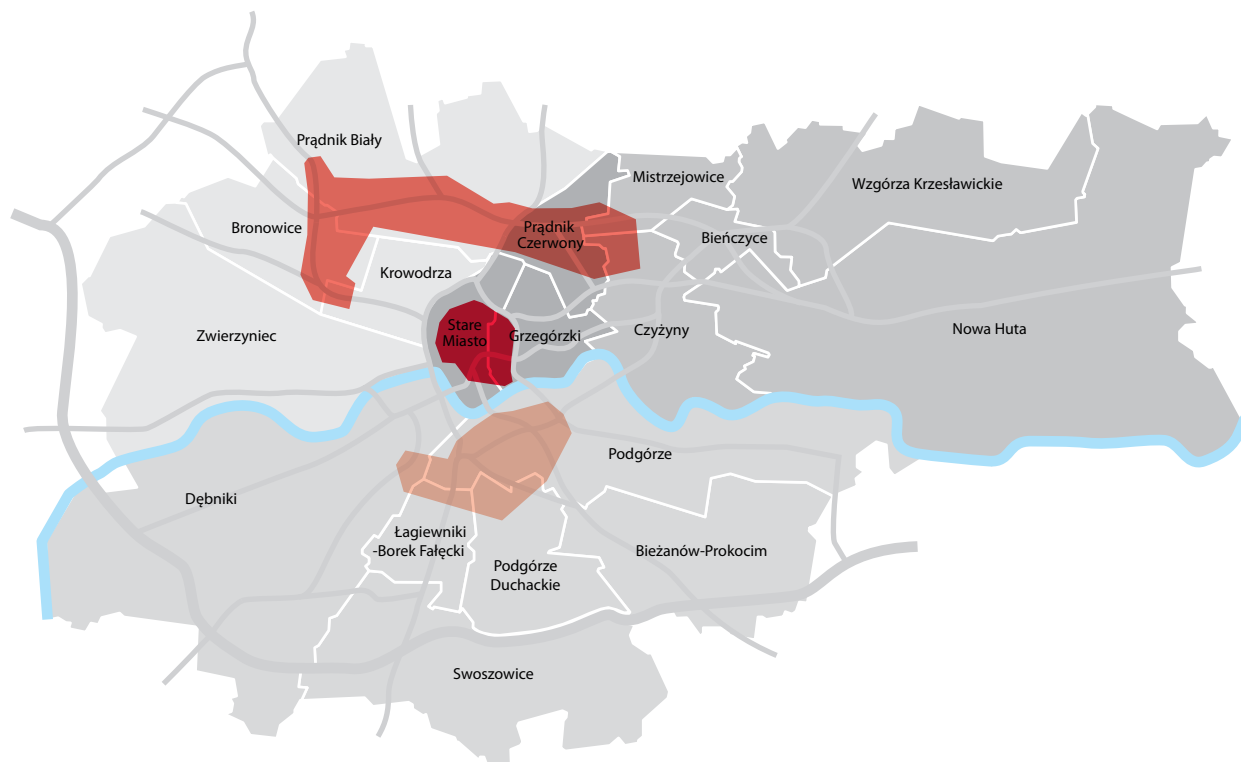
wr.umk@um.krakow.pl www.krakow.pl





## Major areas of office concentration in Krakow

Source: Knight Frank



	■ City Centre	■ North	■ South
Rentable stock:	103,500 m <sup>2</sup>	232,900 m <sup>2</sup>	227,500 m <sup>2</sup>
Under construction:	43,200 m <sup>2</sup>	47,300 m <sup>2</sup>	37,100 m <sup>2</sup>
Vacancy rate:	4.7%	6.6%	3.8%
Rents:	13-14.5 EUR/m <sup>2</sup> /month	10-14 EUR/m <sup>2</sup> /month	10-14 EUR/m <sup>2</sup> /month

The Municipality of Krakow  
City Development Department  
pl. Wszystkich Świętych 3-4  
tel: +48 12 616 15 48  
fax: +48 12 616 17 17  
e-mail: [wr.umk@um.krakow.pl](mailto:wr.umk@um.krakow.pl)  
[www.krakow.pl](http://www.krakow.pl)



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