



Krakow Real Estate Market 2017

Krakow, 2018

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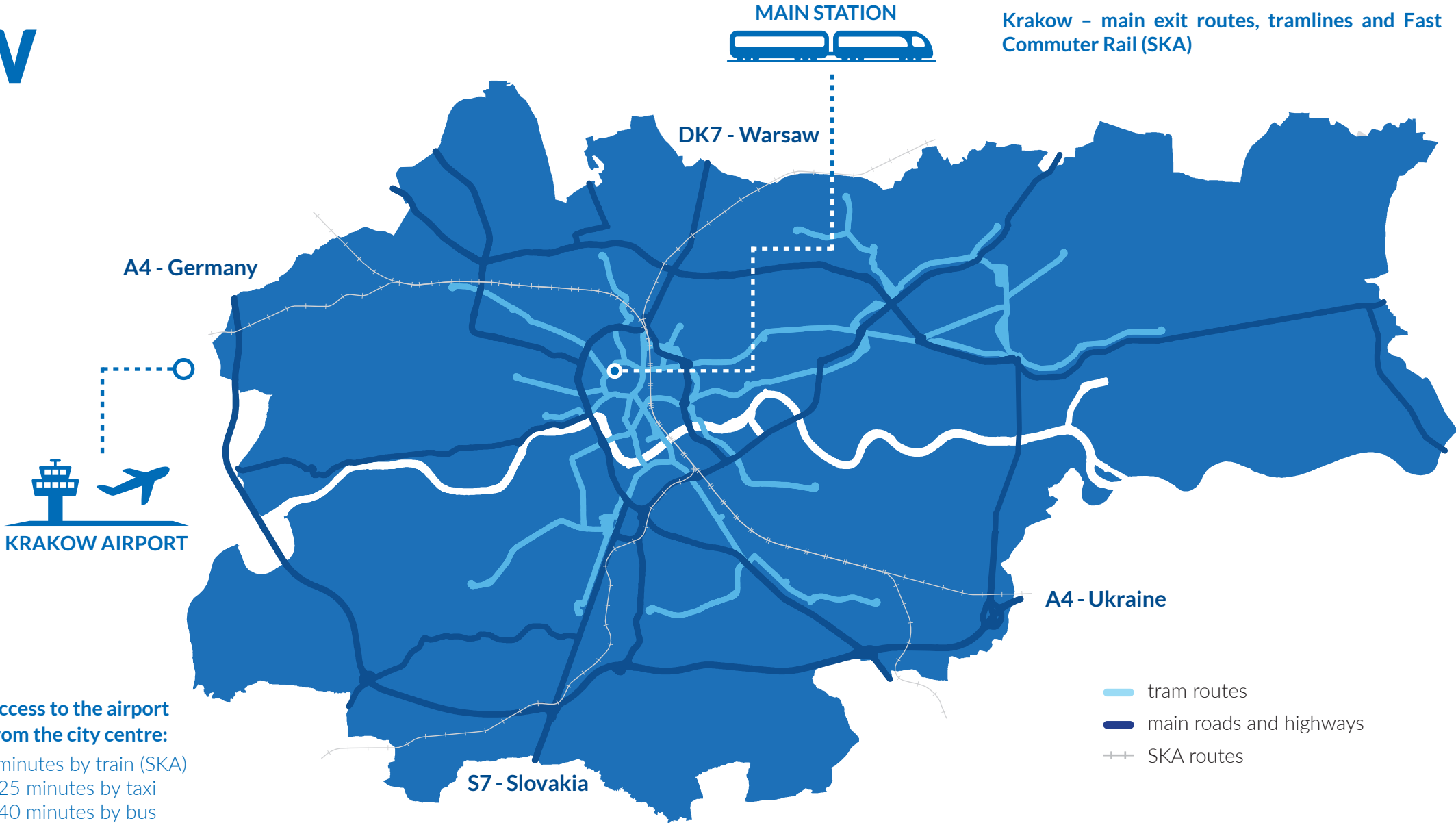
The extended version of the Krakow Real Estate Market 2017 on the housing and land market is to be published on www.krakow.pl in the business tag in May 2018.

ABOUT KRAKOW

Krakow, the capital of the Małopolska Voivodeship, is the second largest city in Poland in terms of size and population. It is situated in the southern part of Poland, located by the A4 motorway connecting the borders of Germany and Ukraine, and near the A1 motorway – from Tricity to the border of the Czech Republic. The express road S7 being built in the north of the city will ultimately connect Krakow, Warsaw and Gdańsk.



From the railway station located in the center of Krakow, one can travel by train to the largest cities in Poland. ICE trains to Warsaw depart almost every hour and the journey takes approximately 2.5 h.



767,000 OF RESIDENTS



327 KM²



2,345 PEOPLE PER KM²



BUSES
95 city lines, 70 agglomeration lines



TRAMS
27 lines

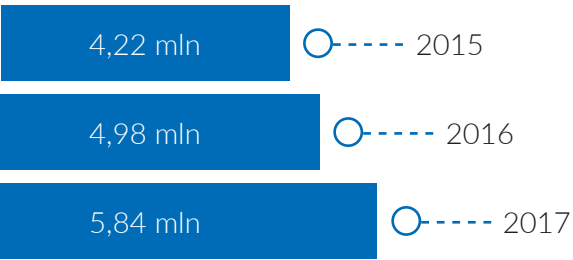


WAVELO
150 stations -> 1,500 modern city bikes



The largest regional airport in Poland – Krakow Airport lies 10 km from the city center. Krakow Airport includes in its direct impact zone (with travel time of 120 minutes) about 14.5 million people, including the Czechs and Slovaks.

Passengers of the Krakow Airport



Public transport is supported by Fast Commuter Rail (SKA) connecting the city center with the suburbs, airport and major towns in the region. In accordance with the policy of sustainable

transport, the public transport of the city is being developed with the use of „Park & Ride” car parks and bicycle transport. Residents and tourists can use an extensive network of city bikes „Wavelo”.

ABOUT KRAKOW

Krakow is one of the most important academic and scientific centres in Poland



23 ACADEMIES
including 5 universities



172 THOUSAND OF STUDENTS
including 43 thousand of students of technical colleges



51 THOUSAND OF GRADUATES



OVER 12 THOUSAND ACADEMICS
including 1,400 professors



In Krakow, there are:

- the seat of the Polish Academy of Learning (Polska Akademia Umiejętności)
- the branch of the Polish Academy of Sciences with 21 institutes and workplace
- the seat of National Science Centre (Narodowe Centrum Nauki)
- Polish Synchrotron Radiation Facility SOLARIS. Solaris Synchrotron (electron accelerator) serves

scientists from Poland and abroad to conduct complex experiments in the fields of physics, chemistry, medicine, pharmacology, geology and material engineering

- the fastest supercomputer in Poland – Prometheus at AGH University of Science and Technology



In the modern business services sector, Krakow is ranked first in Poland, 2nd in Europe, 8th in the world (according to Tholons' Top 100 Outsourcing Destinations 2017)

The graduates of Krakow's universities constitute approx. 70% of the employees employed in the sector of modern business services, including modern technology as well as the research and development sector.

**170 companies in the business services sector (SSC, BPO, IT, R&D, etc.)
70.5 thousand of employees**

During the MIPIM International Property and Investment Fair in Cannes in 2017, Krakow was awarded by the Financial Times - fDi Magazine with the title of the Polish city of the future. It also received the award for the best regional center in terms of human capital and lifestyle, and it was one of the top five cities in terms of business attractiveness and cost effectiveness.

There are 3 subzones of the Krakow Special Economic Zone supporting the development of modern economy – innovation and new technologies.

Thanks to the activities of the venture-capital funds, cooperation of business, universities and innovation incubators, Krakow is one of the largest start-up centers in Poland

An important objective of the arrival to Krakow are business meetings.



The market of meetings in Krakow is steadily growing. Business meetings organised in Krakow constitute 13% of all national meetings (2nd place in Poland)

Krakow, as a city with a huge academic potential, is focused mainly on attracting the events associated with modern technologies and scientific research, in particular medical devices. The city is promoted as the host of large events, which, since 2014, have been held in new facilities, including: Krakow International Conferences & Entertainment, Tauron Arena Krakow and EXPO Krakow.

In 2017, for the second year in a row, Krakow International Conferences & Entertainment won the Meetings Star Award – for the best Congress Centre of New Europe

ABOUT KRAKOW

In 2017, Krakow was visited by a record number of tourists – 12.9 million



Krakow has a well-developed hotel and restaurant infrastructure, a wide range of attractions and cultural events. The town attracts tourists with its beauty, unique atmosphere, and a unique complex of historical monuments, including priceless objects of architecture.



The old town area was inscribed on the first list of the UNESCO World Heritage Sites in 1978, and in 2013, Krakow received the title of UNESCO City of Literature.

Krakow's museums belong to the most visited establishments of this type in Poland. Historical Museum of the city of Krakow, Wawel Royal Castle and the Krakow Saltworks Museum Wieliczka were in an elite group of museums that have achieved attendance of more than a million visitors.



Krakow is a city of festivals. Each year there are about 100 different types of festivals, and a half of them is of international significance.

Miłosz Festival, MisteriaPaschalia, Conrad Festival and Krakow film music festival are rewarded by the European Festivals Association. Among the distinguished are also the International Film Festival Etiuda&Anima and the Festival of Jewish Culture



The city hosts international sports events. Their organization is possible thanks to the modern infrastructure, including: 2 big football stadiums, TAURON Arena Krakow that is the biggest in Poland and one of the most modern entertainment and sports venue hall in the world with a capacity of 20,000. In 2017, another prestigious competition was held in the TAURON Arena Krakow: Eurovalley Poland 2017 – Men's European Volleyball Championship.

Tauron Arena Krakow, as the only one in Poland, is a member of the European Arenas Association, which brings together the best facilities of this type in Europe



The city implements many sports programs, supports sports and recreation events initiated by sports clubs and organizations and organizes some on its own. The development of sport is one of the key tasks, which the city authorities put emphasis on.



Good condition of the economy in Krakow is reflected in the condition of the real estate market. Krakow is the largest regional market for office space, it also has the largest number of categorized hotels in the country and it occupies a leading position among Polish cities, in terms of the number of flats delivered

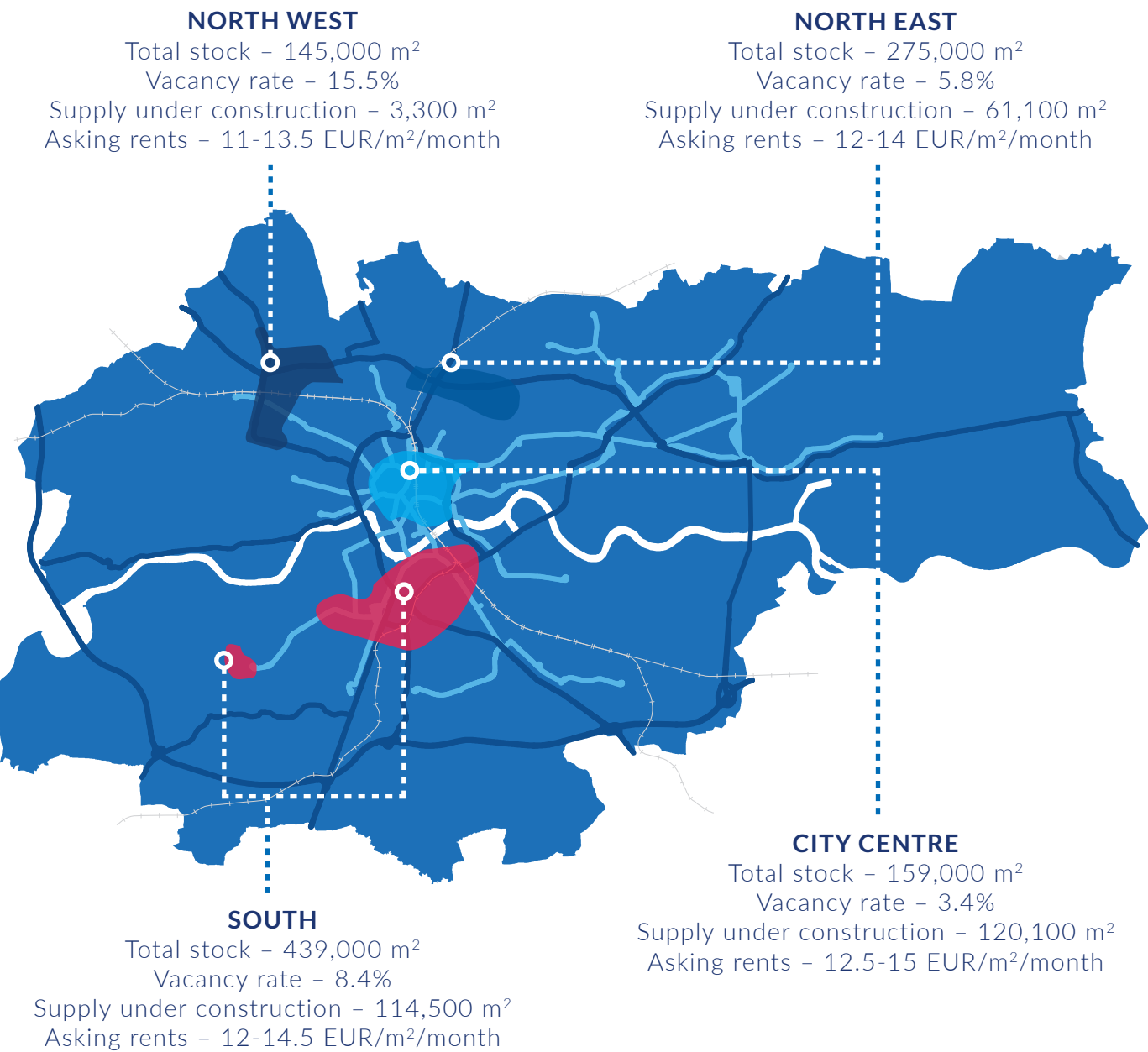
We would like to invite you to read the analysis describing the status of the development of the real estate market in Krakow.

OFFICE MARKET

The office market in Krakow is one of the most dynamically developing markets among Polish cities. 2017 brought a continuation of a high activity of developers and of a strong demand in the city, which led to record-breaking new supply being delivered in the city, and to a record-breaking office take-up.

The increase of the vacancy rate which seemed inevitable considering such a significant volume of new supply was lower than expected, and asking rents for office space remained stable, which also confirms the positive market sentiment.

Areas of office stock concentration in Krakow in 2017



Source: Knight Frank, PORF

Krakow maintains its leading position among regional office markets in Poland. Thanks to the record-breaking new supply amounting to 190,000 m² of office space in 20 schemes, the total office stock in the city in 2017 exceeded 1 million m², and at the end of 2017 it was estimated at 1.1 million m².

Furthermore, the high interest of tenants on the local office market still encourages developers to commence new investments. At the end of 2017, approximately 301,000 m² in 21 schemes have been identified as being under construction, of which 203,000 m² is scheduled for 2018.



Significant new supply resulted in an increase of the vacancy rate. At the end of 2017, approximately 108,000 m² of modern office space was available for lease in Krakow accounting for 9.8% of the total stock. The indicator has increased by 2.6 pp. year-on-year.



However, the increase was not as high as predicted by forecasts thanks to the strong demand. Additionally, the vacancy rate excluding office schemes located outside administrative boundaries of the city was significantly lower, and accounted to 7.9%. Nevertheless, a further increase of the indicator is expected in 2018.



OFFICE MARKET



108,000 M²
office space available for lease

9,8% vacancy rate

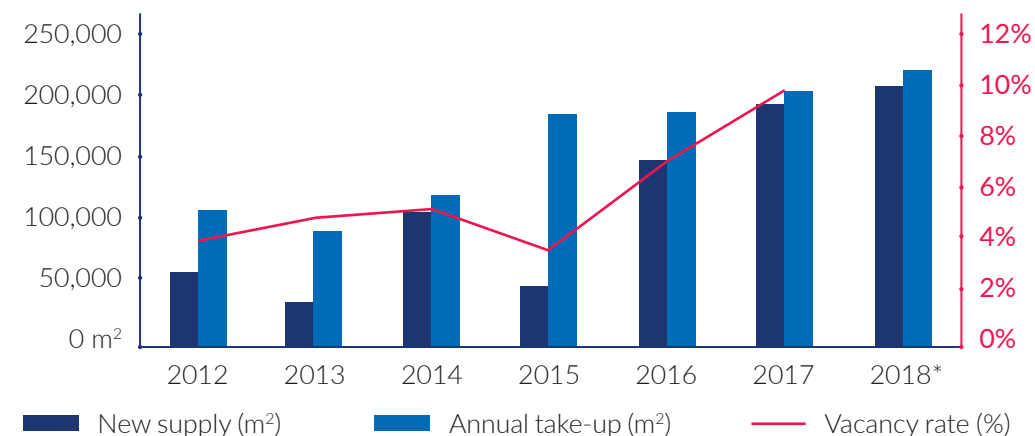
Krakow keeps its leading position as a location for the business services sector. According to Knight Frank's estimates, approximately 50% of office space in Krakow is occupied by BPO/SSC and the IT sector.

2017 was also a period of a record-breaking take-up. The total annual lease volume in the previous year amounted to over 200,000 m², which was slightly higher than the record-breaking volume noted in 2016, and approximately 46% higher than the five-year average take-up.

In 2017, new agreements constituted 26% of the lease volume, 22% of leased space was a subject of pre-let agreements, renewals accounted for 28%, expansions constituted 14% of the take-up, and 9% was owner-occupied space

Asking rents in Krakow have remained stable in most schemes. Rent rates for A-class office space ranged from EUR 13.5 to 14.5/m²/month, however a few schemes in the city centre were quoted at EUR 15/m²/month. Asking rents in B-class buildings ranged from EUR 10 to 13/m²/month. Effective rents remained about 15-20% lower than asking rents.

New supply, annual take-up and vacancy rate in Krakow (2012-2018*)



*forecast

Source: Knight Frank, PORF



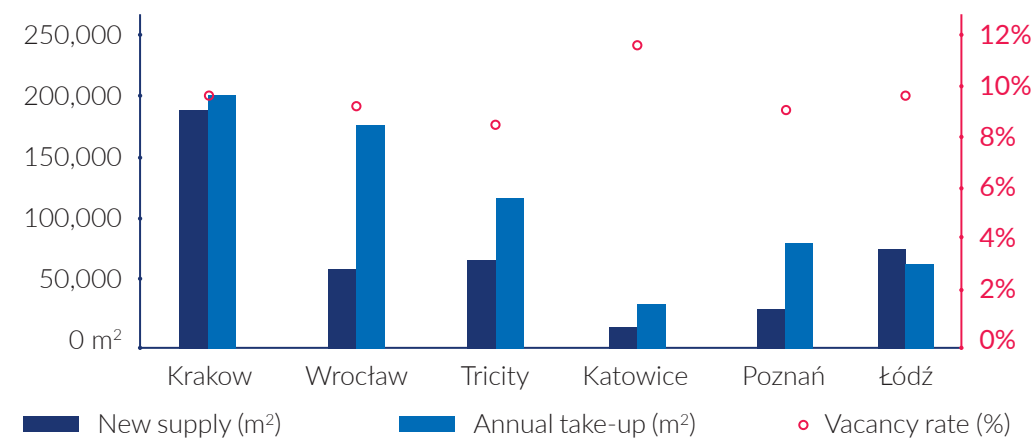
EUR 13.5–15/M²/MONTH
rent rates for A-class office

In 2017, nearly 45% of new supply delivered to the market in regional cities was located in Krakow and at the same time approximately 31% of the historic-high take-up (651,100 m²) was concluded in the city

Krakow, as the largest regional business location in Poland, plays a significant role in the Polish office sector.

The vacancy rate in major regional cities ranges from 8.2% in Tricity to 11.3% in Katowice and Krakow remains at a comparable level, despite enormous developers' activity. Asking rents in Krakow remain at a level similar to the rates in other regional cities.

New supply, annual take-up and vacancy rate in six major regional markets in 2017

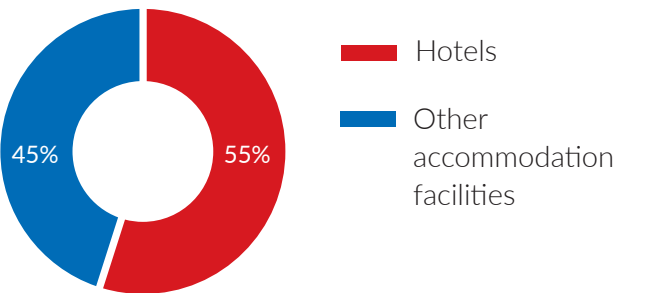


Source: Knight Frank, PORF

HOTEL MARKET

Krakow is one of the most recognizable tourist destinations in both Poland, as well as Central Europe. Every year, the city attracts thousands of visitors from different parts of the world, and their number is continuously increasing. According to the data compiled by Małopolska Tourist Organisation in 2017, the total number of tourists who visited Krakow reached 13 million, which was a record-breaking result in the city history. Krakow is also an important economic hub in the country that focuses on professional services for business, new technologies, finance, IT, and telecommunications. These factors contribute to the city's attractiveness as a cultural and business centre.

Structure of the accommodation market in Krakow



Source: Knight Frank

The strong position of the city of Krakow on the tourist map of Poland is highly supported by the hosting and the organizing of international events. According to the Poland Convention Bureau, Krakow was the 3rd most popular Polish city for organized meetings in 2016 (including conferences, congresses, trade fairs, corporate and incentive events), amounting to some 5,200 such events. Moreover, the convenient access to Krakow, the continually improving infrastructure and growing network of airline connections are also factors which underline Krakow's attractiveness. In 2017, the Krakow Airport Balice served over 5.8 million passengers, and noted an increase of 17% as compared with the previous year.

Krakow has the largest number of officially categorised hotels in Poland

Due to the constant growth in the number of visitors, Krakow offers a wide selection of overnight accommodation options. According to the Central Hotel Register in Poland supervised by the Ministry of Sport and Tourism, there were 158 officially recognised hotels of 1- to 5-stars operating in Krakow at the end of 2017. Krakow provides the largest number of officially categorised hotels when compared to other cities in Poland. The total supply of categorized rooms in the city amounted to 10,401 at the end of 2017.

New hotel openings in Krakow in 2017

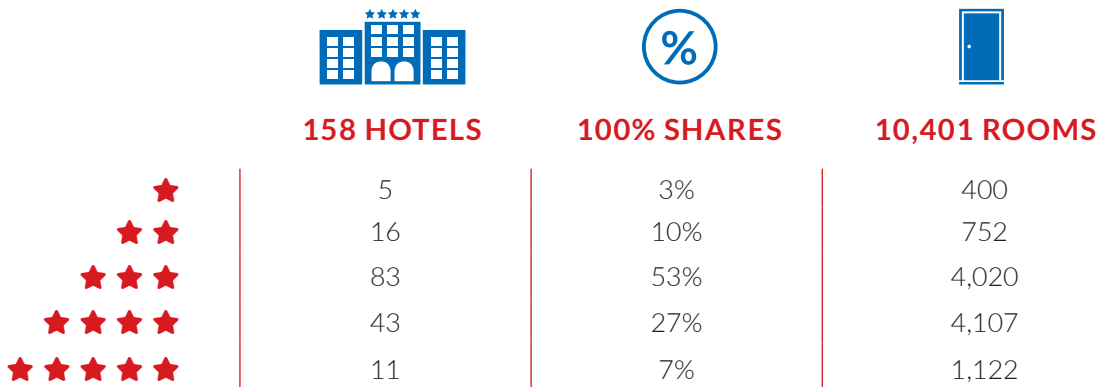
Standard/Hotel name	Number of rooms
***** Unicus Palace	60
**** Grand Ascot	63
**** INX Design Hotel	118

Source: Knight Frank

3-stars hotels dominate in the hotel stock in Krakow

The hotel stock in Krakow is dominated by 3-star hotels which have the largest market share in terms of both the number of hotels (53% of hotel stock) and the number of hotel rooms (39%), while 4-star facilities account for 27% of hotels and 39% of hotel rooms.

Structure of the hotel market in Krakow



Source: Knight Frank

At the end of 2017, there were four hotel projects under construction in Krakow, with the aim of offering 462 hotel rooms in total. The number and quality of hotel projects currently under development in Krakow demonstrates the significance of the city as a tourist and business destination.

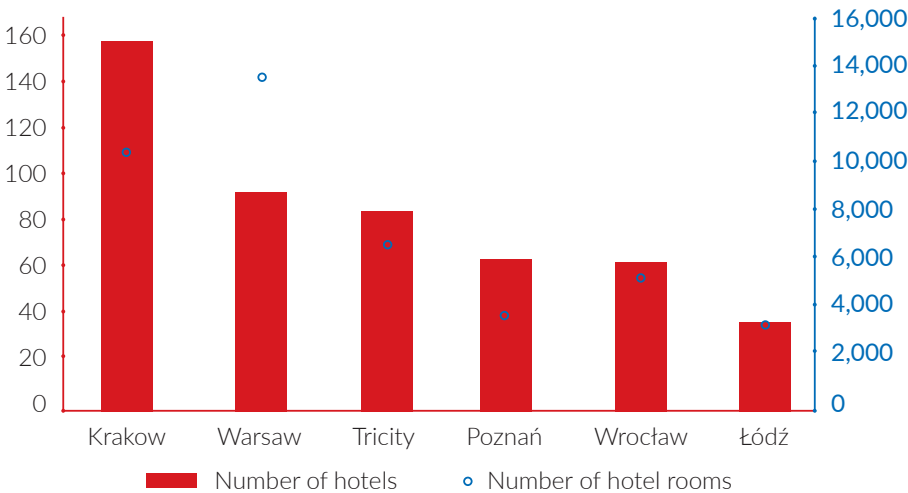
THE SCHEMES UNDER CONSTRUCTION

- ** B&B Hotel – 130 rooms
- *** Hotel at Lubicz St. – 61 rooms
- **** Puro Hotel– 200 rooms
- ***** Hotel Ferreus– 71 rooms

2017 saw record-breaking occupancy rates in Polish hotels. From January until October, the average occupancy rate in Poland was 53%, historically the best result ever. Therefore, the forecasts for the hospitality sector in the largest Polish cities are very positive.

Based on the number of officially categorised hotels, Krakow, with its 158 hotels, is in first place in Poland. The local market is notable for having the largest number of small luxury hotels when compared with other regional Polish cities, while Warsaw has more large chain hotels.

Number of hotels and hotel rooms in the largest Polish cities



Source: Knight Frank

RETAIL MARKET

The long-awaited opening of the Serenada shopping centre was the most important event on the Krakow retail market in 2017

The modern retail space attracted brands that had not been present in the city. They joined companies which were expanding their chains of stores in Krakow, and all together they contributed to a high demand level. Consequently, a decrease of the vacancy rate was registered while rents for the most attractive retail premises remained at a high level.



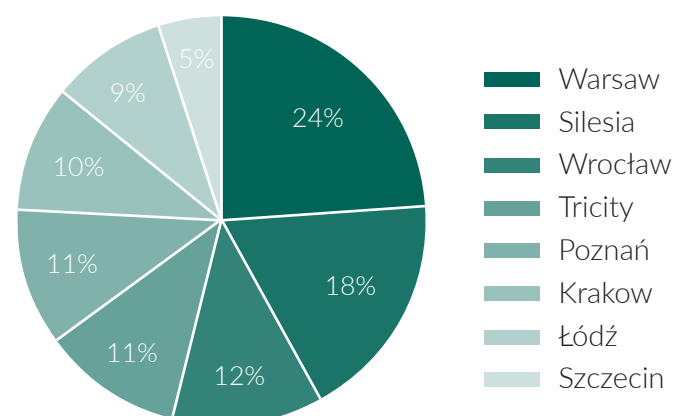
615,000 M²
modern retail stock in 2017

18 RETAIL SCHEMES
from 10,000 to 90,000 m²

In 2017, Krakow held the position of the 6th largest retail market in Poland. Due to the Serenada shopping centre opening in October 2017, modern retail stock in Krakow and the surrounding cities increased and reach the level of 615,000 m². The volume includes 18 retail schemes that vary in scale (both small local projects not exceeding 10,000 m² and large-scale centres reaching even 90,000 m²) and offer (convenience centres, outlet centres or shopping centres with extended fashion and entertainment part). Due to this diversified structure, retail stock in Krakow is able to satisfy the needs of both inhabitants and tourists, whose number has been growing annually.

6th largest retail market in Poland

Total retail stock in the 8 agglomerations (2017)



Source: Knight Frank

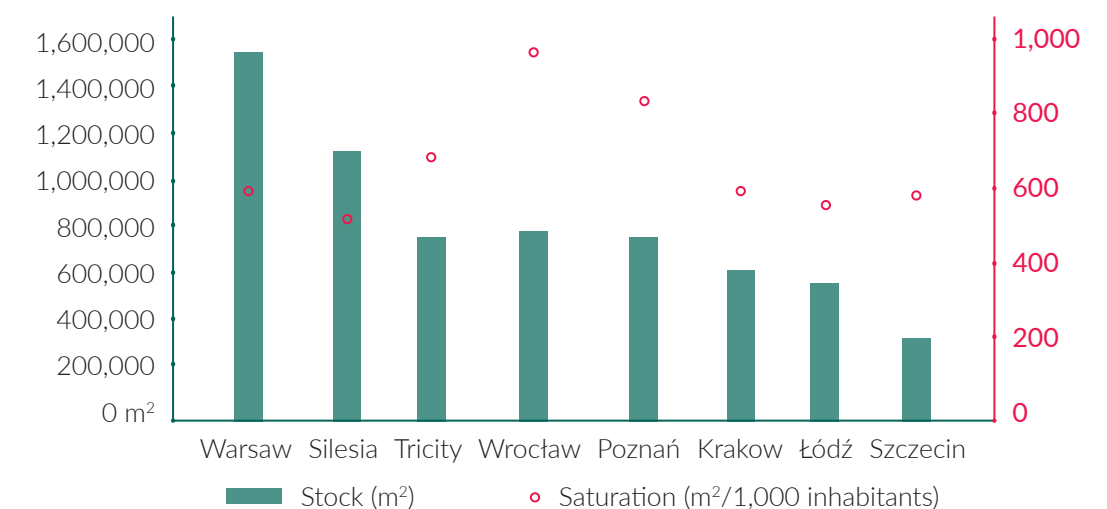
Some of the planned schemes are expected to have a widespread impact once completed

Following the completion of the Serenada shopping centre by Mayland in October 2017, the Krakow market has not currently any new retail schemes under construction. Nevertheless, some of the planned schemes are expected to have a widespread impact once completed. One of them includes the reconstruction and modernisation of the Krokus shopping centre that is supposed to be connected to Serenada. Once the process is completed, the schemes and the neighbouring OBI DIY store, 12-room Multikino cinema and Aqua Park Krakow will create the largest retail and entertainment complex in this part of the city.

The Cracovia Outlet is another anticipated retail scheme in Krakow. Almost 60,000 m² will be split between an outlet centre (21,000 m²) and a grocery hypermarket, DIY store, retail park, and interior design store (almost 40,000 m² in total).

KG Group is going to deliver the complex at Nowohucka Street, within close distance to the M1 shopping centre, Selgros, as well as Expo Krakow and Tauron Arena.

Retail stock and market saturation in the major Polish agglomerations (2017)



Source: Knight Frank

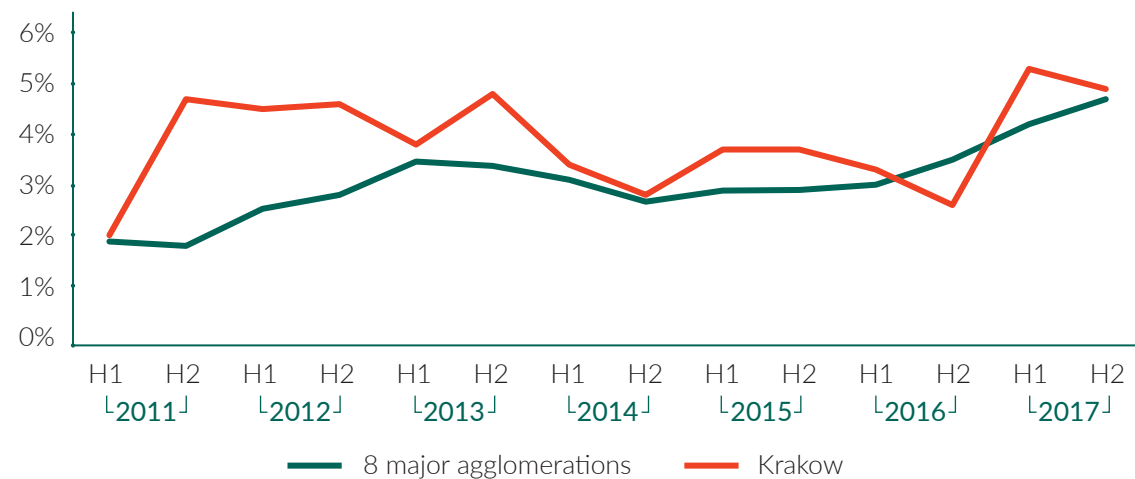


589 M²/1,000 INHABITANTS
saturation ratio in the Krakow agglomeration

At the end of 2017, the saturation ratio in the Krakow agglomeration amounted to 589 m²/1,000 inhabitants and increased by 52 m² over a year, mainly due to the completion of the Serenada shopping centre. Based on the saturation level, Krakow ranked 4th among major agglomerations, jointly with Warsaw.

RETAIL MARKET

Vacancy rate in Krakow and major agglomerations (2011-2017)



Source: Knight Frank

The vacancy rate in December 2017 in Krakow amounted to 5% and decreased by 0.3 p.p. over 6 months. It should be remembered that Krakow belongs to a group of several Polish cities where vacancy rates were highly impacted by Praktiker emptying his large-scale DIY stores. Moreover, some locations still offer retail space previously occupied by Alma Delicatessen (which announced its bankruptcy in 2017).

The systematic absorption of retail space observed in 2017 on the Krakow market is expected to continue, which, along with a limited new supply, should support a downward trend of the vacancy ratio



5% vacancy rate

The vacancy rate decrease is not surprising as demand for retail space in Poland in 2017 did not weaken. Several new brands from the fashion sector entered the Polish market in 2017, e.g.: Freya, Nissa, Love Republic or Victoria's Secret. In Krakow, the available retail space was absorbed by brands that have already been present in the city, yet there were also names debuting in the Krakow market, e.g. Alpine Pro, Van Graaf, New Look or Forever 21.



EUR 35 - 70/M²/MONTH
asking rent in the best shopping centres

Monthly asking rents for the most attractive units (below 100 m², leased to brands from the fashion sector) in the best shopping centres in Krakow varied between EUR 35 and 70/m², and approached levels registered in other major agglomerations (apart from Warsaw). The rental rates depended mostly on the tenant's brand, unit size, its location within the retail scheme, as well as on the landlord's rental strategy.

WAREHOUSE MARKET

Total stock in the region grew up by 38%

2017 has brought a significant revival to the warehouse market in Krakow. Over the last year, the total stock in the region grew up by 38%, and developers delivered to the market both built-to-suit (BTS) and speculative schemes. Despite the fact that the logistic sector in the region is in good shape and that new supply noted record result in 2017, the vacancy rate slightly increased throughout the last year.

The warehouse market in Krakow is one of the smallest in Poland in terms of existing supply due to the fact that Krakow offers relatively high prices of industrial lands. The region is well situated with roads of national and European significance passing through the city, but the location close to Upper Silesia, the second largest industrial hub in the country prevents a rapid development of the warehouse sector in the Małopolska area.



420,000 M²
estimated warehouse
space in 2017



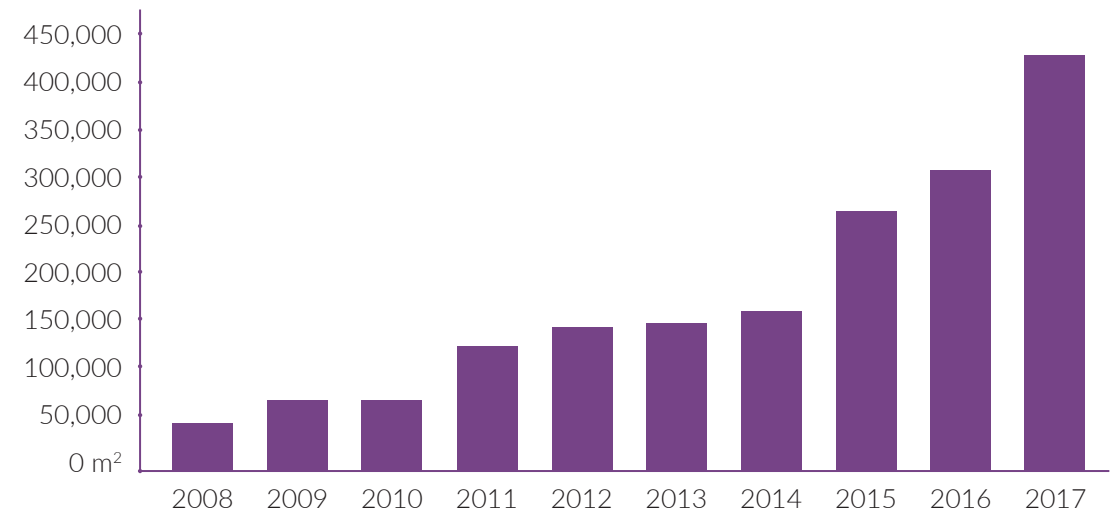
100,400 M²
new warehouse space



110,000 M²
to be planned, of
which 53,000 is under
construction



Warehouse Stock in Krakow (2008-2017)

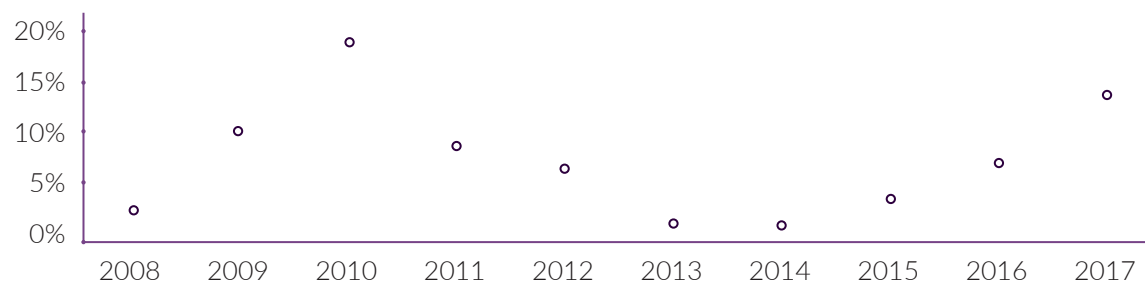


Source: Knight Frank

At the end of 2017, industrial space offered for rent in Krakow was estimated at approximately 420,000 m². The region's supply constituted barely 3% of the total warehouse stock identified in the largest logistics concentration areas in Poland. The projects in the Krakow region are situated within the city's administrative borders and also in adjacent towns: Modlniczka, Skawina or Olkusz. In terms of new supply in 2017, the warehouse market in Krakow observed a significant growth when compared with the previous year.

Nearly 100,400 m² of warehouse space for lease was delivered to the market, e.g. projects developed by Goodman, Panattoni and 7R Logistic. Nevertheless, according to the information provided by the investors with secured investment land, nearly 110,000 m² of logistics space is planned to be delivered to the Krakow market and 53,000 m² is already under construction, and it might be delivered until the end of 2018.

Vacancy rate in Krakow (2008-2017)



Source: Knight Frank

WAREHOUSE MARKET

The warehouse market in Poland in 2017 gained momentum in terms of the volume of leased areas which amounted to 3.8 m m², while in Krakow the total industrial take-up amounted to 58,000 m² and made up approximately 2% of the warehouse transaction volume in Poland.

13,3% - vacancy rate

At the end of 2017, the vacancy rate in Krakow recorded one of the highest levels among all the concentration areas in Poland, and amounted to 13.3%, which signified an increase of over 6 pp. when compared with 2016. This increase is caused by the slow gradual absorption of available space in existing projects and by the completion of large schemes. Considering that at the end of 2017 the warehouse supply identified as being under development was at a relatively low level, a further systematic decrease of the vacancy rate in Krakow is expected until developers construct new schemes.



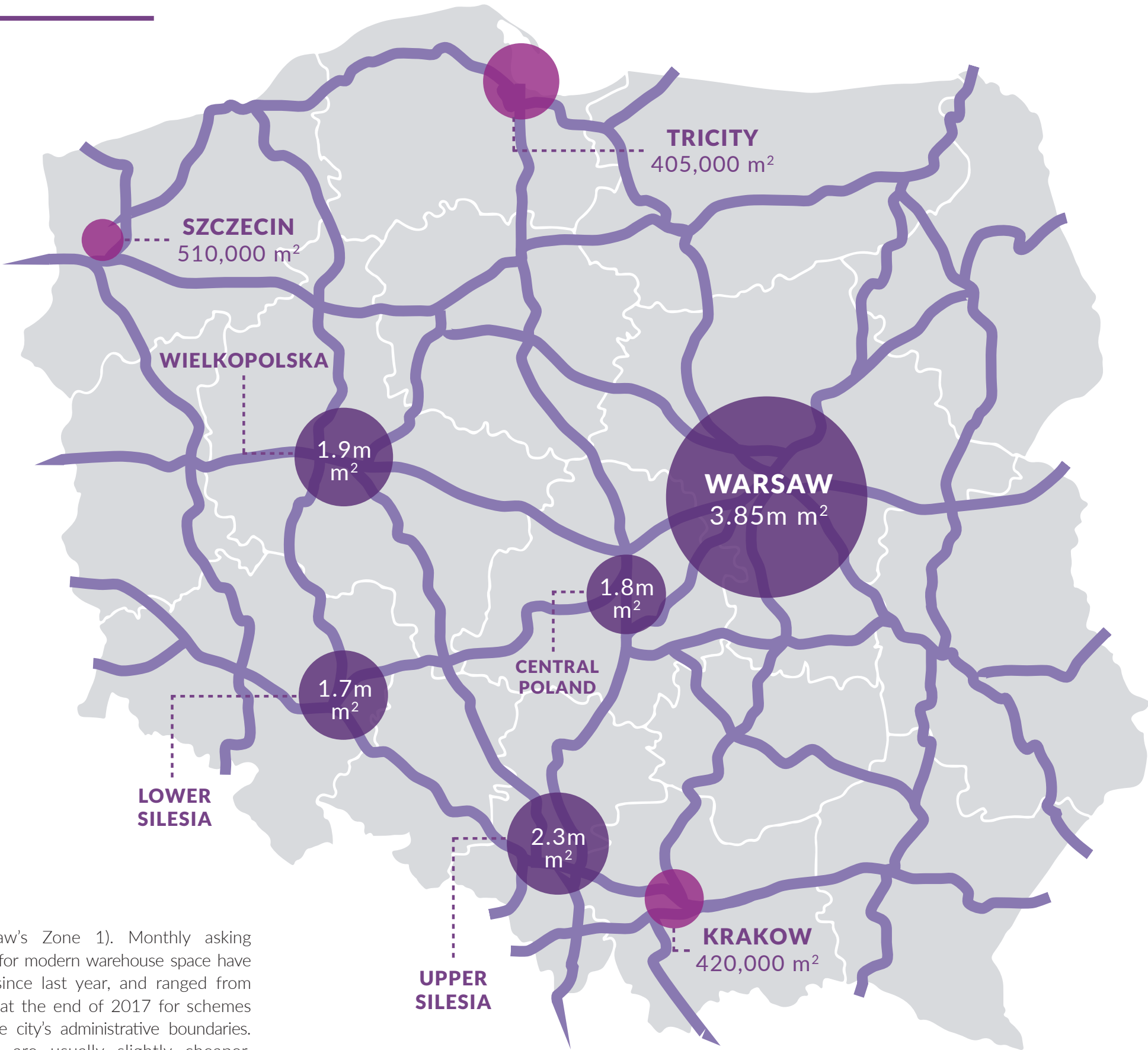
EUR 4.0-4.5/M²
monthly asking rents for schemes
located within the city

EUR 3.50-3.90/M²
monthly asking rents in the region

The monthly asking rents for warehouse space in Krakow depend on a number of factors: the project's location (access to transport infrastructure), technical specification (interior height, column spacing, number of docks, floor loading), the lease period, and the size of the space (a longer lease term and larger leased area translate 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 stable since last year, and ranged from EUR 4.0-4.5/m² at the end of 2017 for schemes located within the city's administrative boundaries. Larger schemes are usually slightly cheaper, and the asking rents in the Krakow region were quoted at EUR 3.50-3.90/m²/month at the end of 2017.



INVESTMENT MARKET

The investment market is still on the rise. Another record-breaking result was noted in 2017 when the total volume of transactions reached nearly EUR 4.9 billion. That was a consequence of a high activity of investors at the end of the year, when the majority of single assets and portfolio purchases was finalised. The total value of the allocated capital in Poland grew up by 9% when

compared with the previous year, and investors were mainly focused on the retail sector which accounted for 38% of the total investment volume of concluded deals in 2017. Moreover, a high volume of acquisitions was observed in the hotel sector where the allocated capital reached nearly EUR 340 million, what made up 7% of the total value of all transactions in 2017.

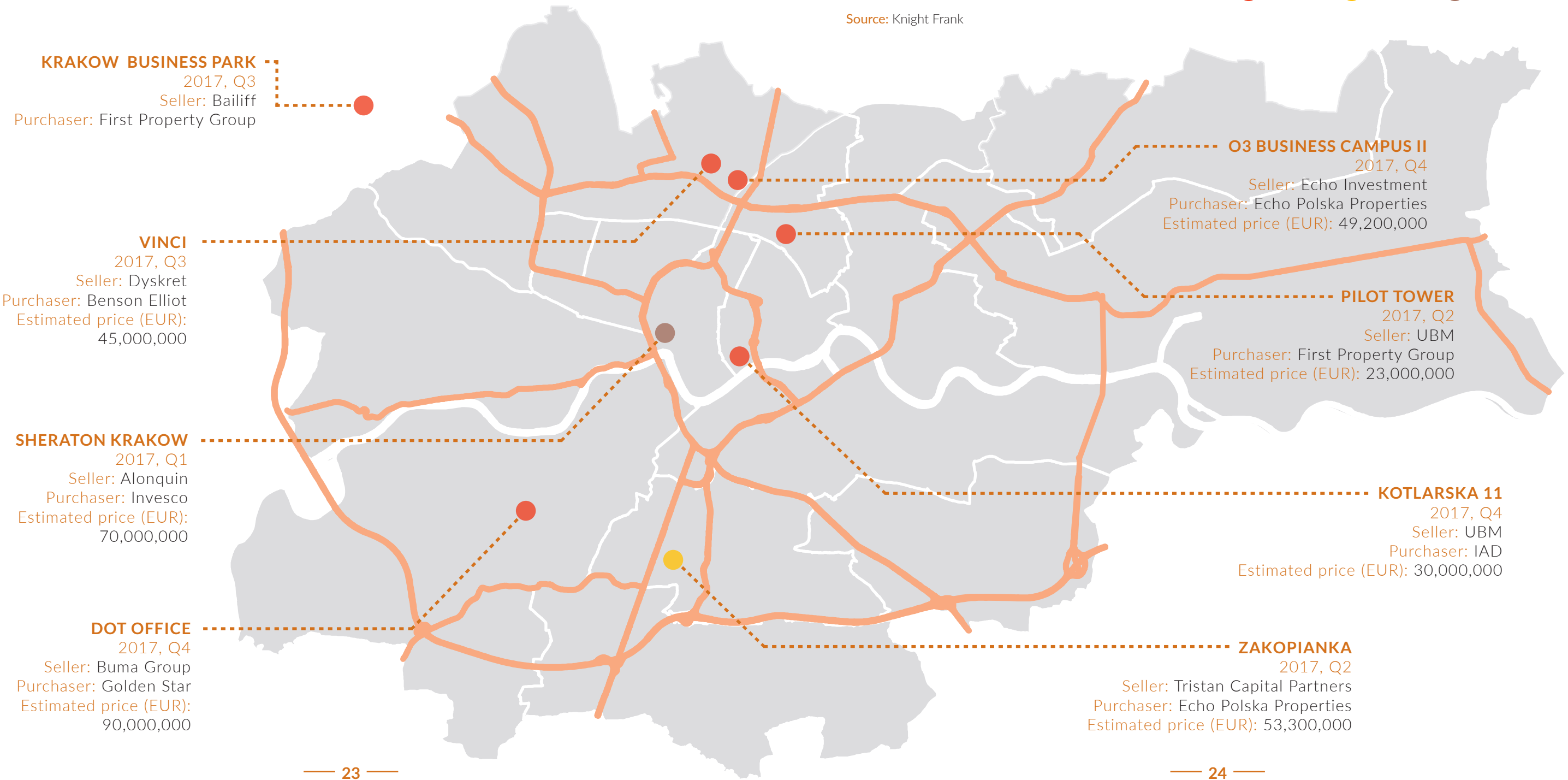
Within the last two years, an increasing interest in regional markets such as Krakow, Wrocław, Poznań or Tricity was observed, from both core fund and opportunistic investors

Krakow, with its well-developed commercial market and wide offer of assets available for sale, is becoming one of the most attractive cities among regional markets.

Investment transactions in Krakow in 2017

Source: Knight Frank

Office Retail Hotel



INVESTMENT MARKET



EUR 416 MILLION

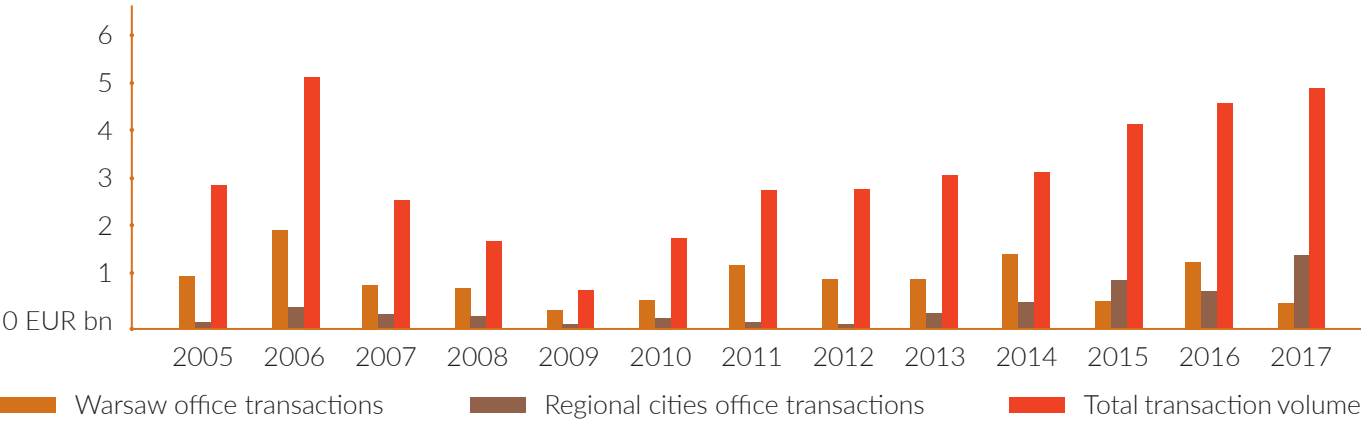
total transaction volume in Krakow, of which:
70% office sector, 17% hotel facilities,
13% retail assets

Based on the market analysis and investor preferences, the city has great potential for commercial investment and buyers are very often more willing to purchase well-commercialized buildings in good condition located both within the city centre and in non-central locations. The largest investment transactions concluded in Krakow in 2017 were the purchase of Sheraton Hotel Krakow by Invesco, the acquisition of Zakopianka shopping center by Echo Polska Properties, the sale of DOT Office scheme to Golden Star, and the purchase of O3 Business Campus II by Echo Polska Properties.

In 2017, prime office assets in Krakow were valued at yields of 6.20%–7.00%, and prime retail schemes at 5.25%–5.50%

Since the beginning of 2016, investors have allocated nearly EUR 1 million in Krakow, mainly in the retail and office assets. The map shows all the commercial transactions in Krakow concluded in 2017.

The total transaction volume vs. regional and Warsaw office transactions



Source: Knight Frank, IRF





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