

Krakow Real Estate Market p. II 2017

Krakow, 2018

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PRIMARY HOUSING MARKET



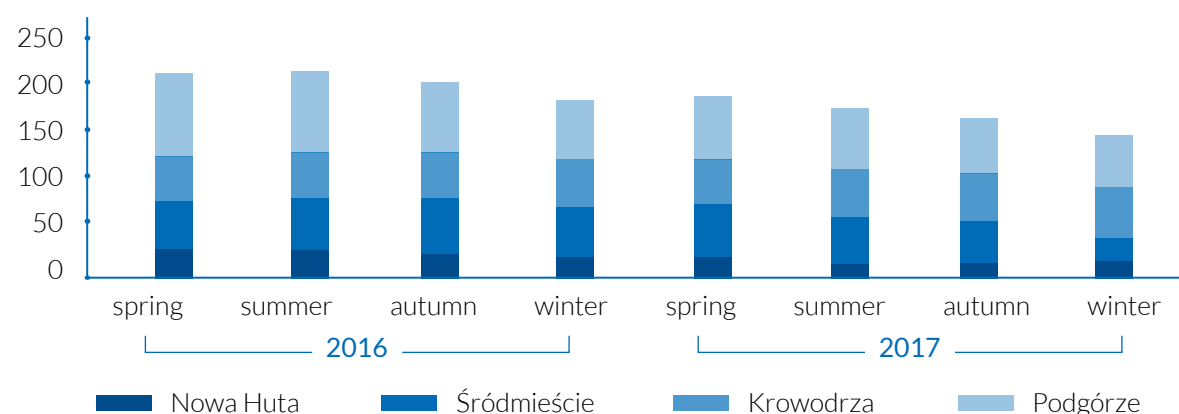
Sales of housing apartments in the capital of the Małopolska Region have been growing for four years to reach its peak in 2017. It is certain that the 2018 sales will not bring further increase, since the number of constructed housing apartments has dropped. This results primarily from lack of potential plots intended for multi-family construction rather than from fear of downturn.

As early as in the IH 2016, the average number of housing investment in Krakow oscillated around 210 to drop by nearly 30% – to only 143 at the end of 2017. The only area that evaded such significant decrease in the number of sites was Krowodrza. In the remaining areas of the city, the recorded housing investment rate fell down to 43%.

In 2017, the housing market in Krakow recorded peak activity of the buyers that led to shortcomings in the short-term offer

In 2017, the area of the highest developer investment rate was Krowodrza, which is the effect of its perception as the most attractive area in terms of price to location ratio. Although Śródmieście is more attractive in terms of location, the average apartment prices make them unavailable to an ordinary buyer. This situation stems from lack of development plots and resulting low supply. Nowa Huta, engaging only a minor part of the Krakow developer market despite relatively the highest availability of the investment areas, continues to bring negative connotations of the buyers.

Number of investment in the city by quarters (2016–2017)

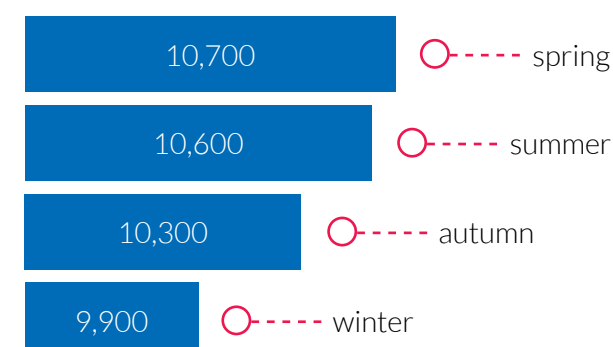


Source: Institute of Real Estate Market Monitor Analysis mrn.pl

The investment boom continuing for several years has led to mobilisation of all land reserves at the disposal of developers

So called “land banks” have practically disappeared, since all lands were put up for sales and due to long-term nature of the process of purchase and preparation of the new lands. This have led to gradual decrease in the apartment housing offer. Despite the fact that in 2017 the developers supplied a record number of apartments to the Krakow market, the offer began to shrink and the flats are sold with increasingly distant date of delivery.

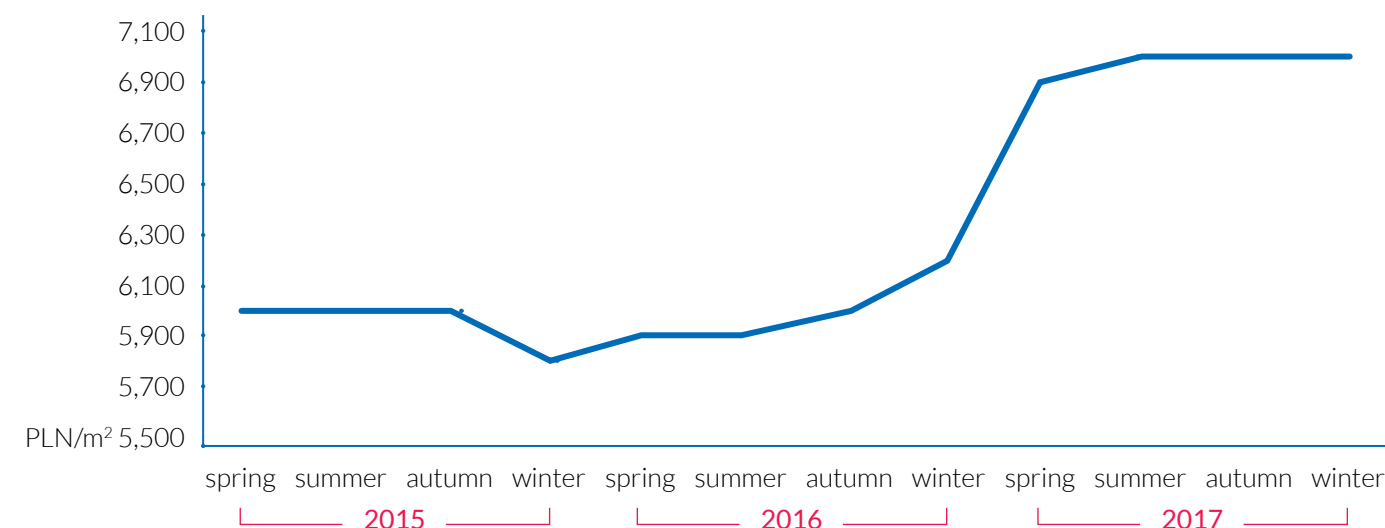
Number of offered apartments by quarters (2017)*



* the offered apartment pool includes also the booked apartments

Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Average prices of the offered apartments by quarters (2015–2016)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

The times of buying the apartments at the “hole in the ground” stage have returned, provided that nowadays such procedure is safe. Thanks to so called Developer Act the funds are transferred on the trust accounts kept by the banks. Promotions are no longer needed and the sales of apartments reached an excellent rate despite increasingly frequent increases of their prices during the investment.



PLN 7,000

average asking price per 1 m² of apartment

The average asking price as of the end of the year from all apartments (9,900) available for sale amounts to PLN 7,000/m². It increased by 12% y/y although the actual growth of prices is slightly lower (approx. 6%). The average price reflects the shift of investments towards the city downtown and abandoning cheap deliveries for the MdM programme at the peripheries recorded in 2017.

PRIMARY HOUSING MARKET

Low interest rates continue to trigger sales. In 2017, the number of incurred housing loans was higher comparing to the previous year

Higher bank margins or recent increase of own share in purchase of the apartment up to 20% did not impede this process. Cash transactions continue to have a significant share in purchases, which results from low interest of deposits and lack of faith of the investors in alternative equity instruments (for example exchange).

According to the regular surveys of the Institute carried out during the Krakow housing fairs, the most desired apartments are the ones with 2 and 3 rooms, including in particular these of small floor space. Thus a separate kitchen or such practical premises as wardrobe or larder are uncommon in the offered apartments. At the same time the average residential area of the purchased apartments has been continuously however slowly increasing, by approx. 0.5 m²/year. The developers prefer to build small apartments due to their highest unit prices, although the regularly increased threshold of providing adequate number of parking places imposes construction of increasingly bigger flats. Since 2018, the new regulations will limit also the minimum residential area, which should also contribute to increased average area of the apartments.

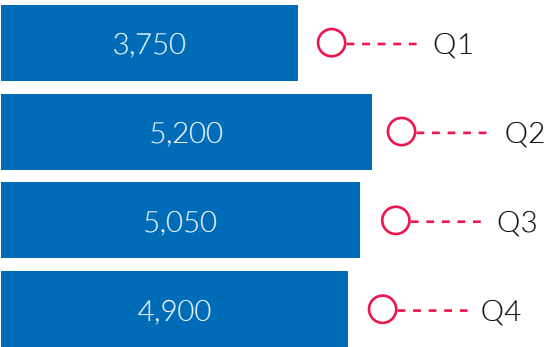
Only a decade ago, the primary market segment in Krakow has sold, in average, approx. 5–6 thousand of apartments a year. In 2017, these values were recorded as early as in quarterly sales. This demonstrates strong progress of the development market in Krakow in recent years and reflects the demand from the last year. It was an absolute

record in the city history and will be difficult to repeat – approx. 19 thousand of apartments were sold and – including the investment in the entire Krakow metropolitan area – this number reached 20 thousand.

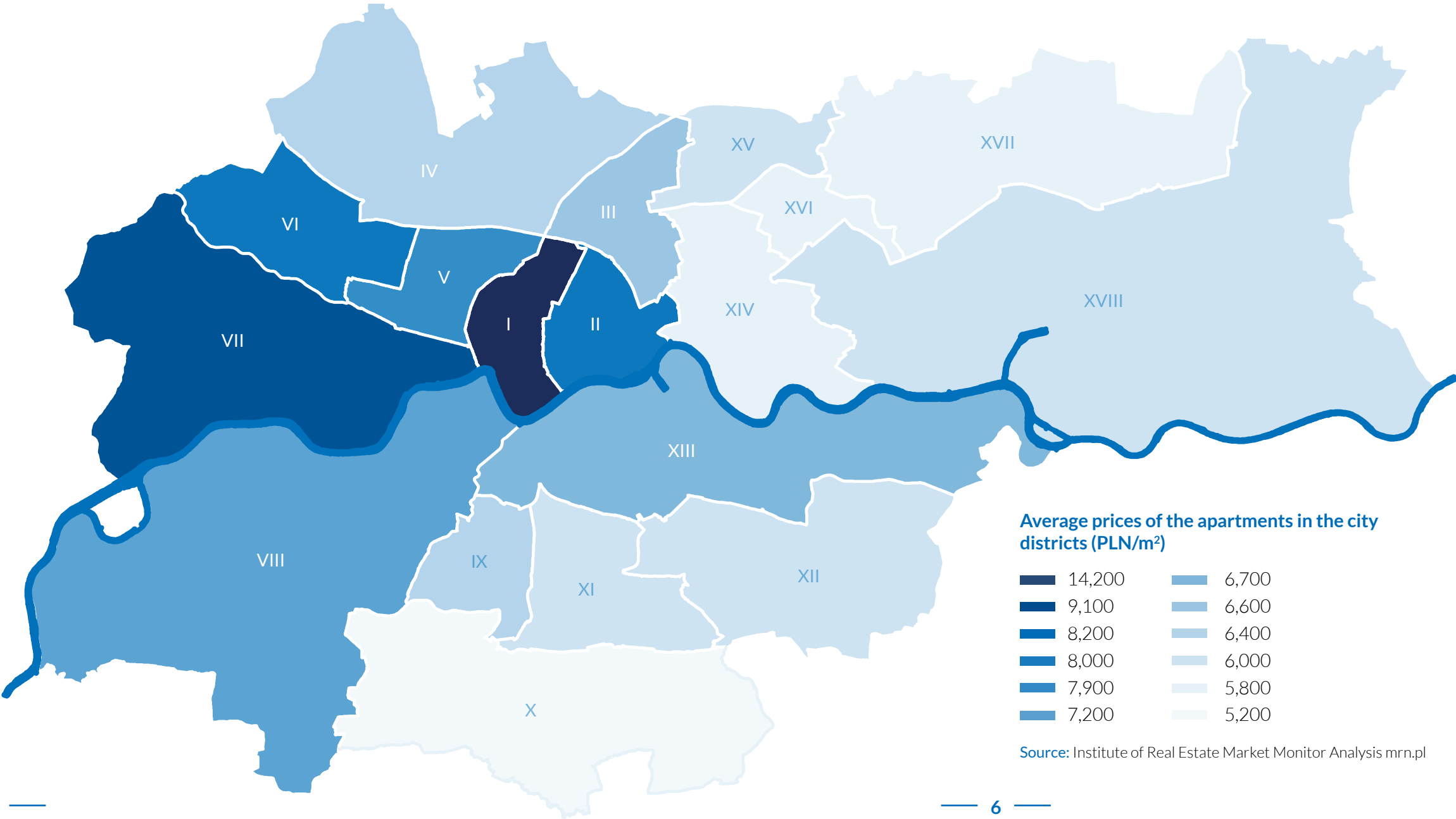
**Record demand in 2017
approx. 20 thousand of new
apartments sold**

In 2017, the primary housing market in Krakow clearly displayed the advantage of demand over supply despite a record supply. This resulted in noticeable increase in prices comparing to 2016 and stabilisation of the average asking price at the level of PLN 7,000/m². Currently decreasing supply, increasing costs of contractorship and purchase of lands – will most probably led to further price surge in the upcoming year. This in turn will most probably mitigate supply and slow down sales and – in longer time perspective – impede growth of the apartment prices. Increases in interest rates planned for 2019 will foster this stabilisation.

Number of apartments sold on the Krakow primary market by quarters* (2017)



* the offered apartment pool includes also the booked apartments
Source: Institute of Real Estate Market Monitor Analysis mrn.pl



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

SECONDARY HOUSING MARKET

In 2017, the volume of transactions on the secondary market maintained at similar level as in 2016. As every year, the greatest number of apartments was sold in the largest cadastral unit – Podgórze. The lowest number of sold apartments was recorded in Śródmieście due to its smallest area and high prices and in Nowa Huta, which is perceived as the least attractive and with the lowest number of built flats.

Upon the transaction volume boosts in 2015 and 2016, maintaining of the same sales level can be perceived as a fine result. One of the reasons behind continuing demand can be a growing volume of investment purchases of apartments for rental being currently a more profitable option than bank deposits. These purchases are predominantly made on the primary market although more transactions on the secondary market are recorded.

The investors are focused on good localisation attracting the potential tenants and guaranteeing quick sales rather than on the lowest prices. Due to incomplete data for 2017 and minor differences recorded in the same period of 2016, no significant changes comparing to 2016 was adopted.

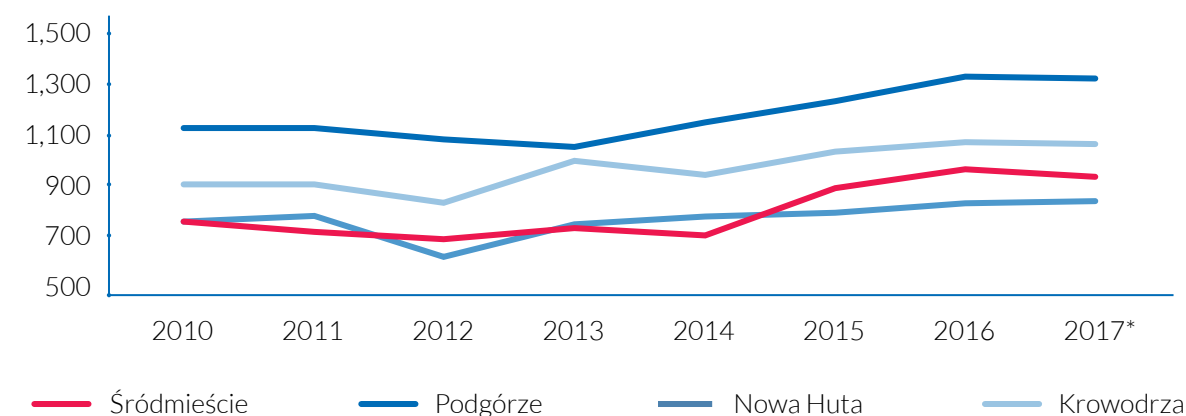
Average sales prices of the new and secondary-market apartments were similar, provided that the primary market focuses predominantly at the city outskirts and the secondary turnover is generated primarily in the near-downtown areas. That means that for the same unit price we can buy a new apartment at the peripheries or a secondary-market one near the downtown. When comparing these locations, by adding approx. 10% to the purchase price of the secondary market apartment the buyers acquire a new apartment of similar floor space and yet to be finished.

An assessment of the attractiveness of individual areas of Krakow can be seen in the average prices that are obtained for residential apartments – the highest prices are recorded in Śródmieście and Krowodrza, provided that the price range between these districts widened in the last year – increase in the average apartment price in Śródmieście was accompanied by simultaneous drop of prices in Krowodrza, that can be associated with increased transaction volume on the secondary market in the peripherals of this district. At the same time, price range between Krowodrza and Podgórze has changed due to subsequent increases in the average apartment price since 2014. Traditionally, the lowest prices for 1 m² of apartment were recorded in Nowa Huta, which is accompanied with the smallest average size. In Śródmieście, both the average price and floor space of sold apartments were the highest.

In 2017, the average apartment price on the secondary market in Krakow exceeded the threshold of PLN 300 thousand

Average price for 1 m² of an apartment on the secondary market in Krakow in 2017 rose by approx. 4.5% comparing to the previous year and amounted to slightly above PLN 6.3 thousand/m². In this case, the increase was recorded in all districts – thus it can be seen that the slide in average apartment price in Krowodrza is associated with decreasing average prices of the apartments. The highest increase was recorded in Śródmieście (5.4%), and the lowest in Krowodrza (1.9%). Nowa Huta (4%) was ranked at the first place in terms of increase for the first time in history.

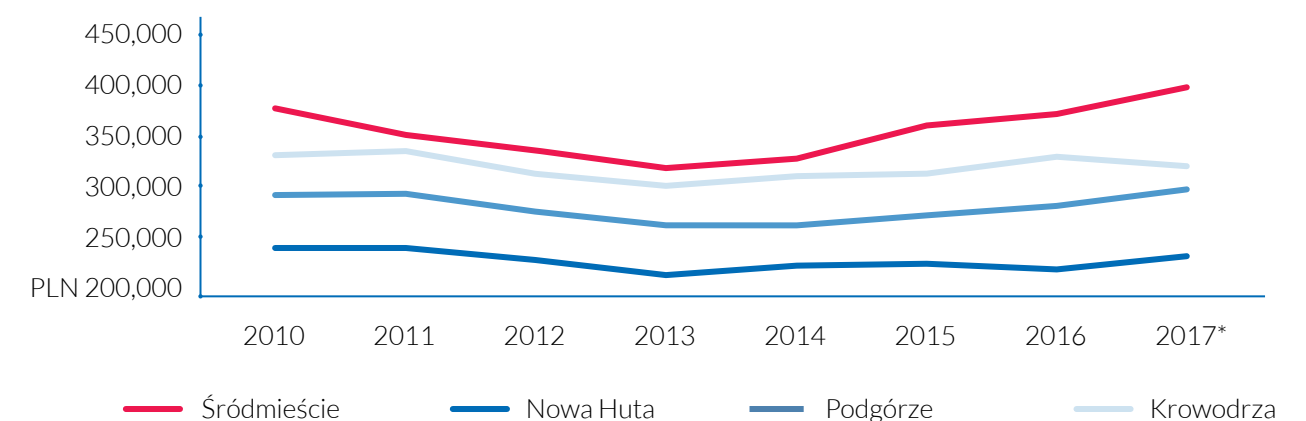
Volume of transactions on the secondary housing market (2010–2017)



* estimated on the basis of incomplete data

Source: Institute of Real Estate Market Monitor Analysis mrn.pl

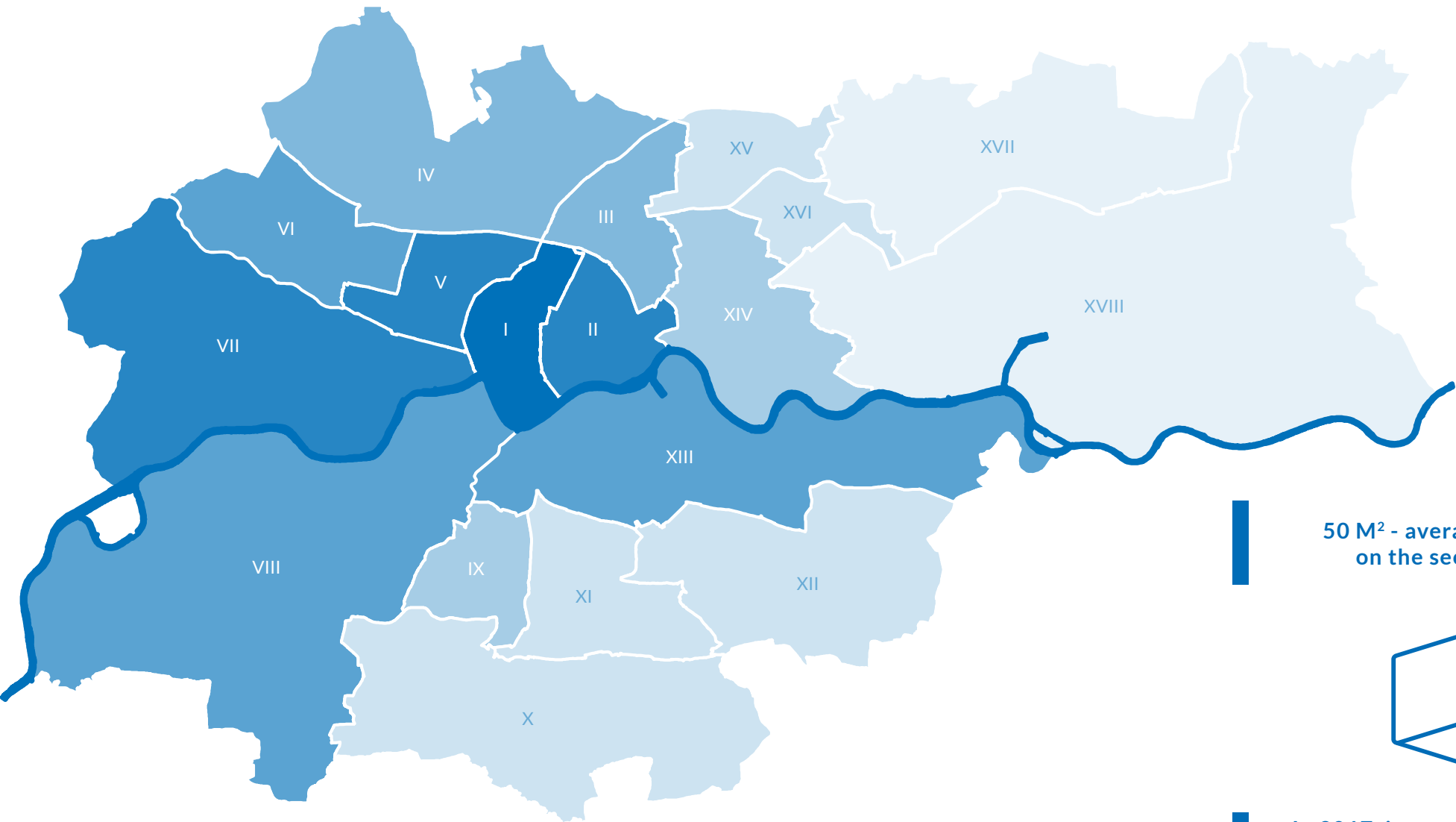
Average apartment price on the secondary market (2010–2017)



* estimated on the basis of incomplete data

Source: Institute of Real Estate Market Monitor Analysis mrn.pl

SECONDARY HOUSING MARKET



Average price per 1 m² of an apartment on the secondary market by Krakow districts (PLN)

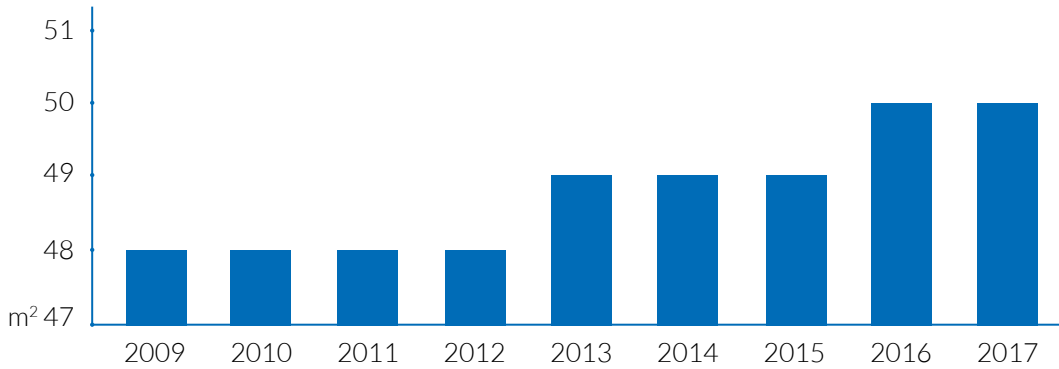


Source: Institute of Real Estate Market Monitor Analysis mrn.pl

The districts located near the downtown display the highest prices per 1 m² of usable space. Stare Miasto, Krowodrza and Zwierzyńiec are in the lead. Dębniki continue to gain value, including in particular the areas located nearest the city centre: old Dębniki and the Podwawelskie Housing Estate areas.

Lower prices in Grzegórzki may seem surprising, however this area is known from apartments of predominantly low standard. The lowest average prices are recorded in Bieżanów-Prokocim, Bieńczyce, Nowa Huta, Wzgórza Krzesławickie and Mistrzejowice.

Average apartment size on the secondary market (2009–2017)

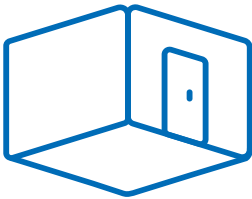


Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Similarly as in the previous years, trading in the secondary market was dominated by small apartments.

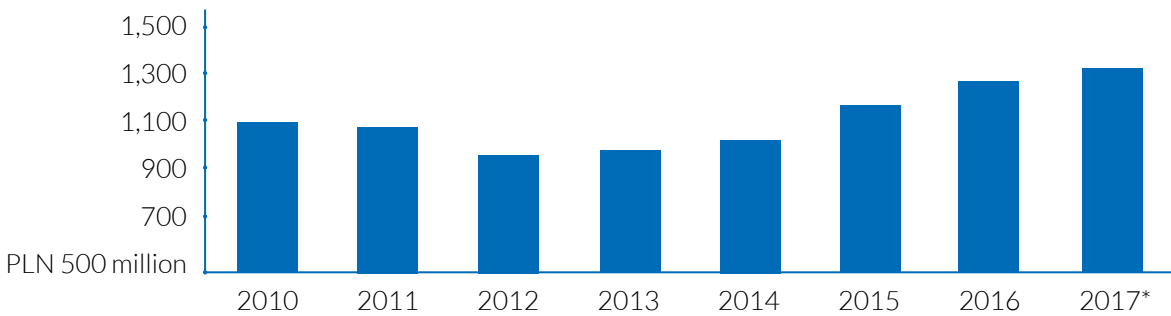
In 2017, transactions in the apartments of the area above 65 m² accounted for 16%, whereas sales of apartments above 100 m² hardly exceeded 3% of the total market. This situation persists for quite some time and will be difficult to change, since the predominant trend is to construct the small-size apartments that will, in time, enter the secondary market, which will additionally strengthen the current trends. More than a half of sold apartments ranges between 35–55 m².

50 M² - average apartment size on the secondary market



In 2017, increase in turnover volume on the secondary market was once again recorded

Turnover on the secondary housing market (2010–2017)



* estimated on the basis of incomplete data

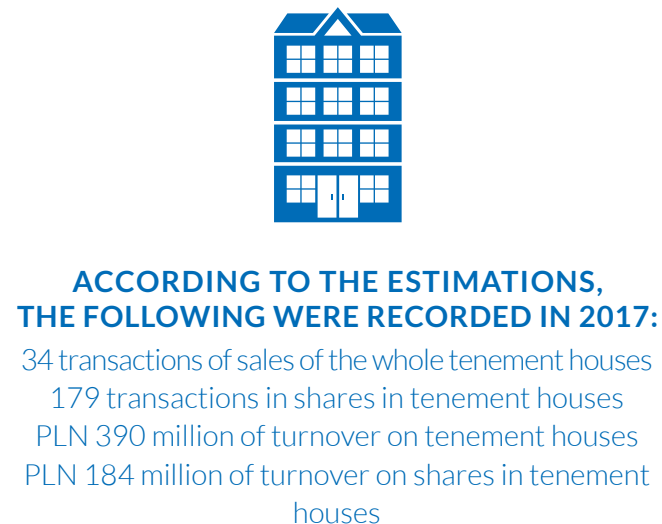
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

In 2018, the secondary housing apartment in Krakow should be stable in terms of prices. Price increase barriers, including competition from the primary market, are strong enough to not to expect any significant rises.

TENEMENT HOUSES AND HISTORICAL AREAS

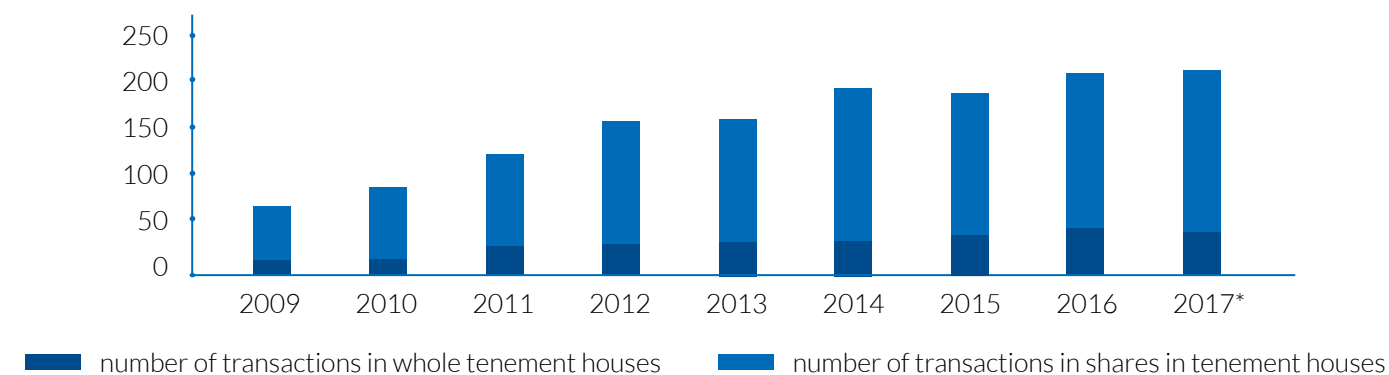
Vast majority of tenement houses in Krakow has a non-regulated legal status. Many other faced division and establishing separate residential ownerships, which – in particular in historical real-estates – cannot be perceived as favourable phenomenon. Supply of entire tenement houses is thus strongly limited and the new sales offer appearing on the market result primarily from the subsequent regulations of legal statuses, in particular of the ownership right. This offer however decreases year after year, whereas supply of shares in tenement houses continues to be high.

In the last year, supply of tenement houses has changed due to opposing trends: on the one hand – increase in prices encouraging re-sales of tenement house by the short-term buyers, whereas on the other hand – large-scale disturbance in legality of rights to tenement houses of the sellers being the heirs of pre-war Jewish owners. Both these factors determine currently further increase of tenement houses' prices.



High number of transactions persisting for 2 years reflects a rebounded interest in this market both from the institutional investment and small purchasers seeking attractive real-estates to buy. Despite strong upward trend in demand, supply of tenement houses in Krakow maintains at the similar level, since the number of these facilities is limited.

Number of transactions on the tenement house market (2009–2017)



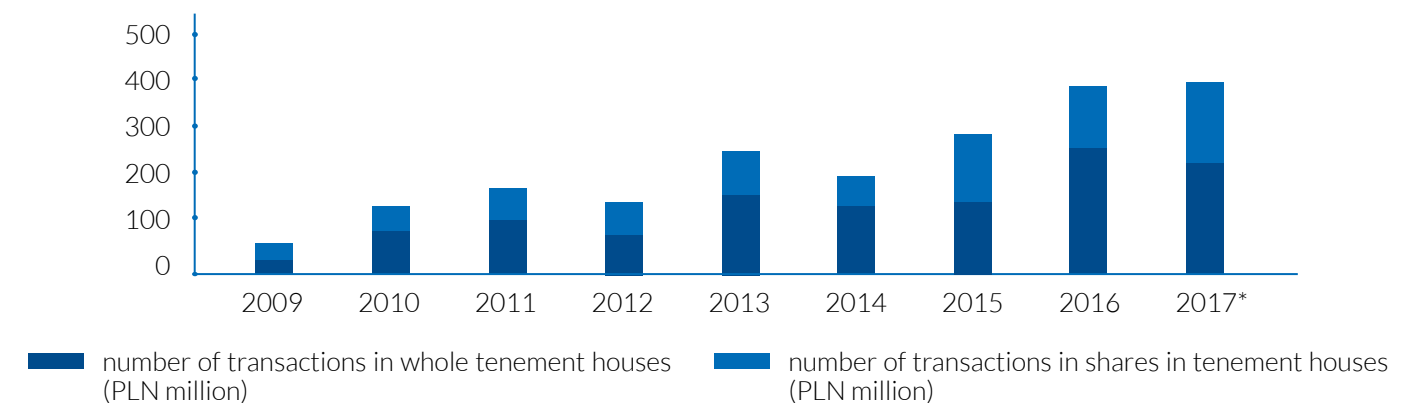
* values estimated on the basis of incomplete data
Source: Institute of Real Estate Market Monitor Analysis mrn.pl



PLN 8,500
average price per 1 m² of a tenement house in Śródmieście – 14% more than in 2016

Market turnover in 2017 amounted to PLN 390 million, including 200 million paid for the whole tenement houses, which gives a similar result comparing to the previous year.

Market turnover on tenement houses and shares in tenement houses (2009–2017)

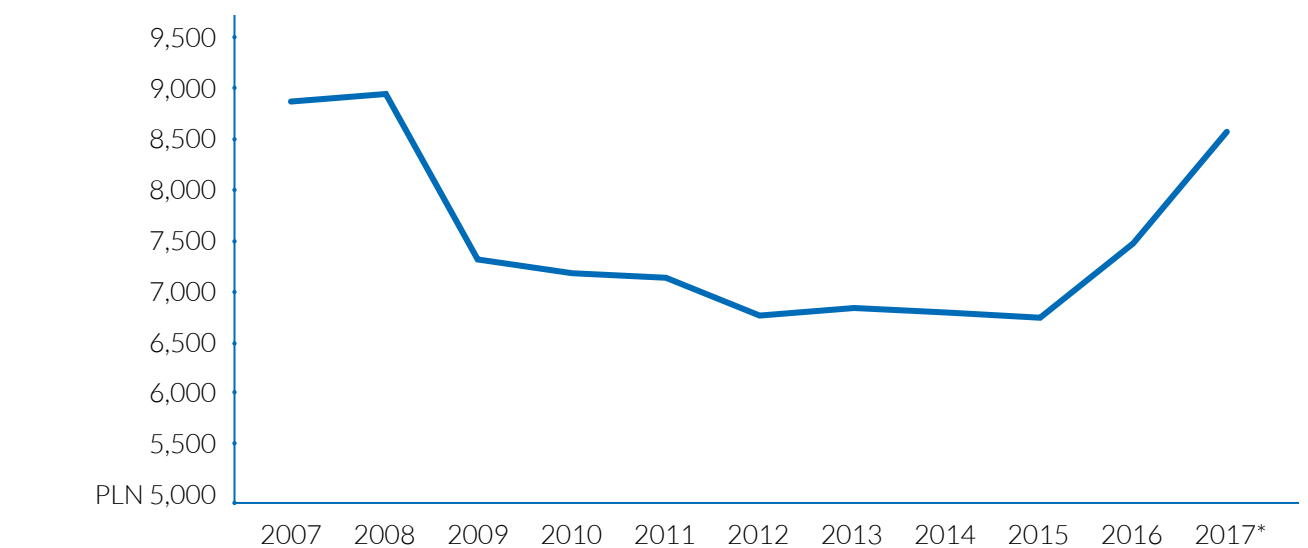


* values estimated on the basis of incomplete data
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

After the 2003–2007 boom, followed by adjustment and stabilisation in the next years, the period of 2016–2017 is distinctive for clear rebound of upward trend. Average unit price of a tenement house in Śródmieście exceeds PLN 8,500/m² of

usable space, which is by 14% more comparing to 2016 and by 27% more than in 2015. Similar price trends are noticeable on the other correlated real-estate markets in Krakow: housing and investment areas.




Average price of 1 m² of usable space in Śródmieście (2007–2017)



* values estimated on the basis of incomplete data
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

TENEMENT HOUSES AND HISTORICAL AREAS

The individual areas of the tenement house market display differentiated parameters

	 SOLD TENEMENT HOUSES	 TURNOVER	 AVERAGE PRICE PER 1 M ²
STARE MIASTO Planty area	5	PLN 100 million	PLN 16 thousand
ŚRÓDMIEŚCIE without Old Town	20	PLN 200 million	PLN 8 thousand
KROWODRZA	2	PLN 30 million	PLN 5.6 thousand
PODGÓRZE	5	PLN 30 million	PLN 6 thousand

PLN 6.1 MILLION - average price for a tenement house in 2017 (PLN 5.6 million in 2016 and PLN 3.8 million in 2015)

Maximum price of PLN 48.7 million at the turn of 2016 and 2017 was paid for a tenement house in the Old Town (Stare Miasto). In Śródmieście (outside the Old Town), the highest price for a tenement house was PLN 23.5 million and in Podgórze – PLN 3.5 million.

The key determinants of prices of tenement houses, include, apart from their size, attractiveness of their location measured primarily with their distance from the Main Market Square (Rynek Główny), technical and functional condition, exploitation measured by amount of income from rental (from commercial areas rented for PLN 300–450/m² – to the apartments with tenants paying a regulated rent (PLN 6–14/m²) and the investment potential expressed by development or adaptation permit.



The rate of return forms increasingly frequently the basis for calculation of a profitable purchase price of a tenement house. In 2017, the lowest rate of return in sales transaction exceeded 6% for the tenement house located at the Floriańska Street (6.5% in 2016), which corresponds to the low risk level (at the level of the most profitable shopping malls in Warsaw).

The highest share in demand structure in 2017 was gained by the investors from the housing and apartment sector. Although, the number of tenement houses purchased by the investors from the hotel and tourist market continues to increase on year-to-year basis (purchases for hotels, hostels, guest houses and gastronomy). Demand from the hotel and tourist sector is however limited to whole tenement houses which corresponds to the specific nature of these services. Boom in the hotel industry attracts wealthier investors to Krakow, who are willing to pay record prices for historical facilities adaptable for hotels. The perfect example is sales of the PKO BP SA's historical building at the Wielopole Street or purchase of shares in a complex of tenement houses, in which the famous Saski Hotel at the Św. Tomasza Street, by a single investor.

Supply pressure of the investors seeking the tenement houses for prestigious offices and seats of the companies and representative commercial functions in the downtown and at the main streets continues to maintain. Investment attractiveness of tenement houses is proven by numerous new apartment investments in the city centre, so called infill buildings (filling the place between the existing tenement houses).

It is estimated that in the upcoming years the continued upward trend in the tenement house market will be more dynamic than in the remaining real-estate market segments



The factors triggering upward trends on the tenement house market continue to be cheap loans, boom on the apartment market, persisting boom in the hotel sector and well-recognised brand of Krakow attracting the foreign investors.

The tenement houses at the most attractive streets of the Old Town (Floriańska Street, Main Market Square) currently available for sales are offered for prices reaching PLN 20,000/m², despite the necessary renovation and adaptation works.

In recent years, the frequent business model applied on the market of historical tenement houses is long-term lease of these buildings for tourist and hotel purposes, ensuring the institutions (e.g. church) holding the ownership title and inflow of continuous and high income from rents. The profits for the lessee include lower involvement of own assets in the hotel investment.

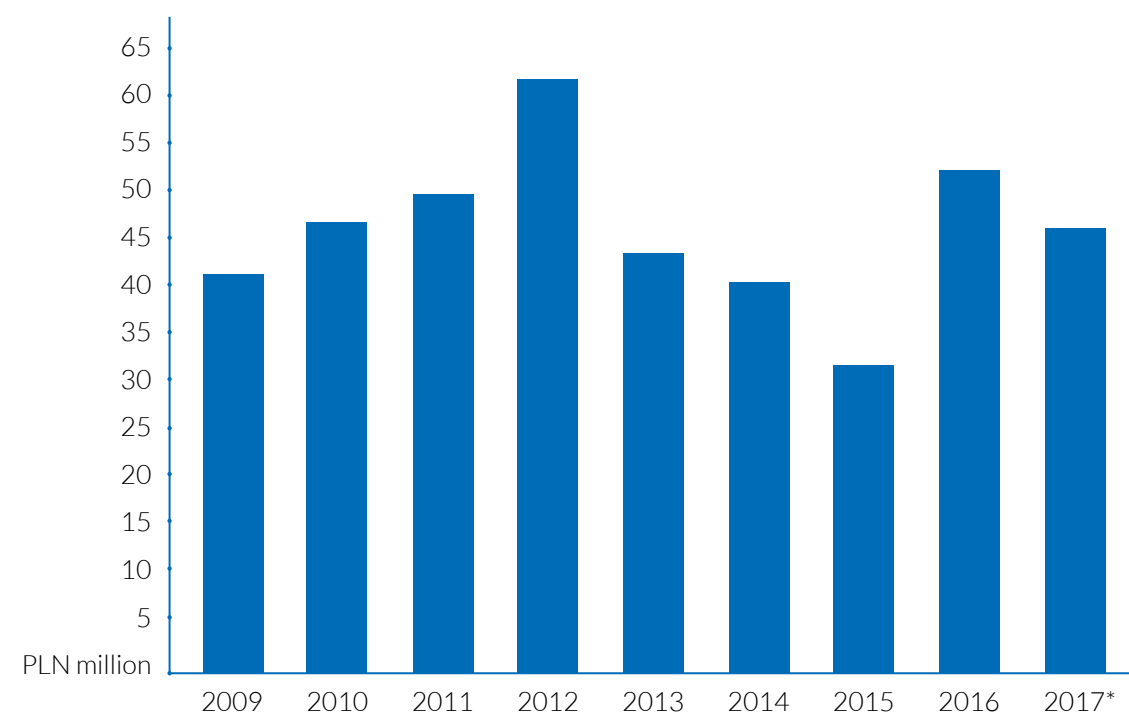
SINGLE-FAMILY HOUSES

PRIMARY MARKET

2016 brought a reversal in downward trend on the primary market of single-family houses in Krakow. There was a breakthrough in terms of the number of transactions and turnover volume, amount of which exceeded PLN 52 million, that is nearly 65% more comparing to the previous year.

In 2016, 84 transactions were made in total, however in the next year this number was not repeated. According to the Central Statistical Office, in 2015 the developers obtained only 42 investment permits for the single-family houses, which was reflected in the sales results for 2017.

Turnover on the single-family house market in Krakow (2009–2017)



* estimated on the basis of incomplete data

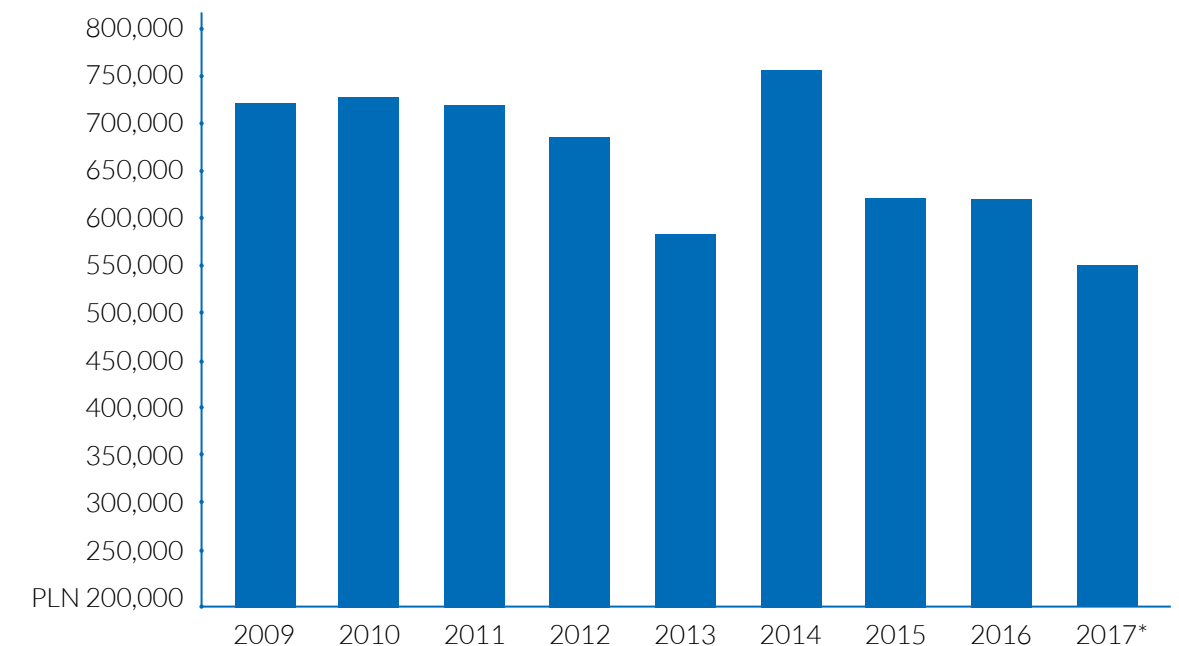
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Houses sold in the Podgórze district accounted for 90% of all transactions

Strong differentiation of market activity in the former districts of Krakow continues to persist. The highest differentiation is observed in Podgórze. The number of houses sold in 2017 accounted for

90% of all transactions as was highly correlated with the number of developer investments. Krowodrza and Nowa Huta record only a few transactions a year. In Śródmieście – in very few enclaves of single-family development – there is no place for the new buildings, which is why this district has been recording only occasional transactions for years.

Average transaction price on the primary market of single-family houses (2009–2017)



* estimated on the basis of incomplete data

Source: Institute of Real Estate Market Monitor Analysis mrn.pl



APPROX. PLN 550,000

average price for house on the primary market

In 2016, average price of the house amounted to approximately PLN 620,000. According to the initial data for 2017, the average price will reach the level of approx. PLN 550,000 that is less than in the previous years. One should notice however that the analysed data recorded no transactions from so called expensive districts of Krakow in contrary to 2016.



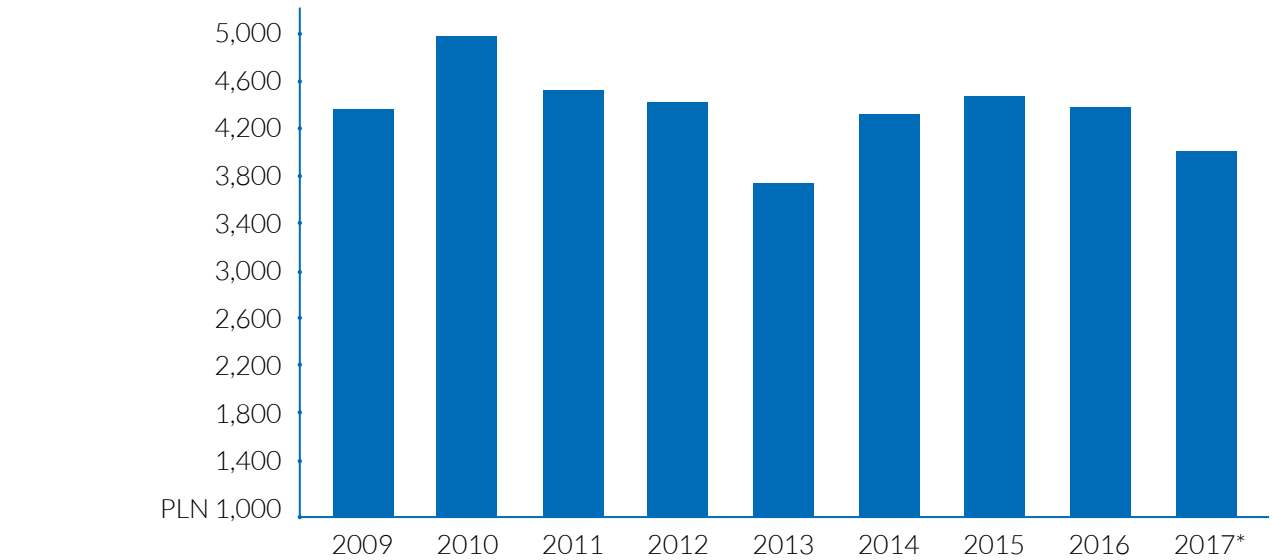
APPROX. PLN 4,014

average price of 1 m² of a house on the primary market

In 2016, the average price of 1 m² of usable space in the house amounted to PLN 4,396 and was lower than the 2015 average only by 2%. In 2017, unit prices for 1 m² of usable space of a house in Krakow fell within the range of PLN 2,875–5,670, provided that no sales in Wola Justowska or Śródmieście, where the price threshold is much higher than in the other districts of Krakow, were recorded. In 2017, the average priced formed at the level of approx. 9% lower than in 2016. This does not mean that the houses are getting cheaper, but that vast majority of sales were made in the more distant areas of Podgórze (comparing to the centre) and Krowodrza outskirts.

SINGLE-FAMILY HOUSES

Average price for 1 m² of usable space of single-family houses on the primary market (2009–2017)

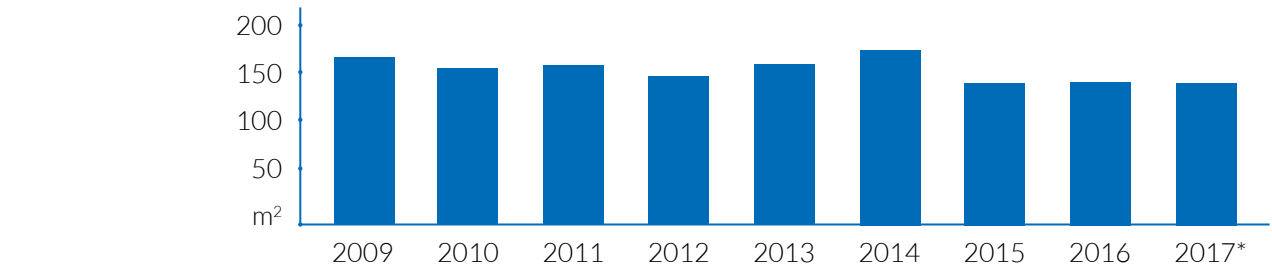


* estimated on the basis of incomplete data
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Since 2015, i.e. third year in a row, the average space of a single-family house sold on the developer market has been approx. 140 m². This means that it is the most optimal space accepted by the market.

140 m² – average space of a house on the primary market

Average usable space of a single-family house on the primary market (2009–2017)



* estimated on the basis of incomplete data
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Primary market of single-family houses in Krakow experience high competition from the housing market and single-family construction outside

Krakow. Average space of the houses maintaining at similar level confirms the need for keeping the prices in the offer at possibly low level.



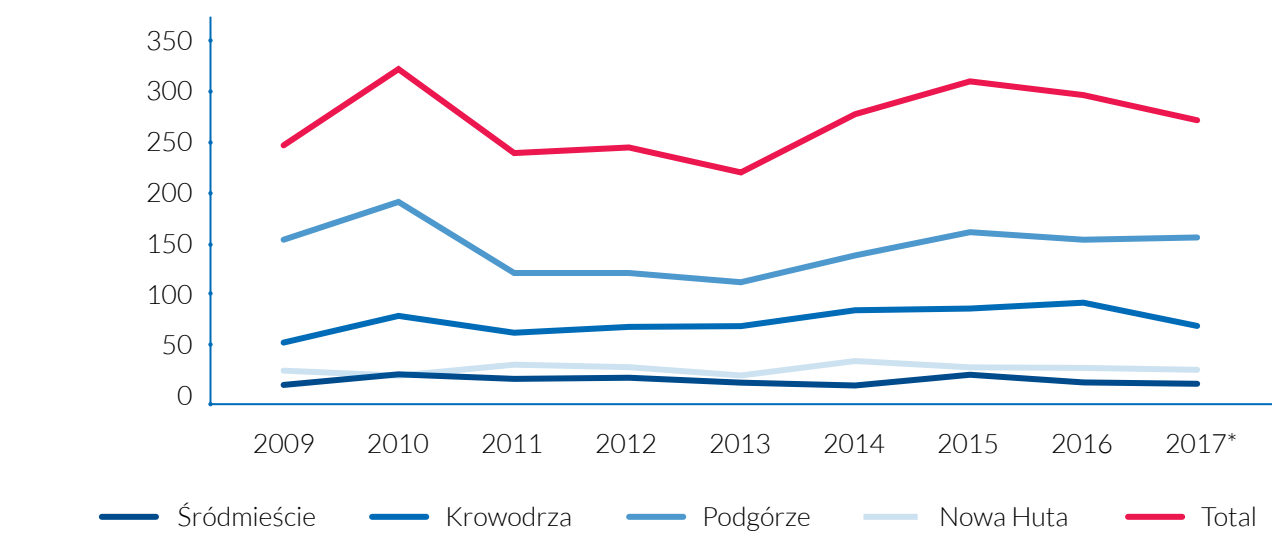
SECONDARY MARKET

Secondary market of single-family houses in Krakow in 2017 recorded repeatedly a minor drop in the number of transactions comparing to the previous year. This fall was observed in all districts, excluding Podgórze. Traditionally, Podgórze was also the district with the greatest number of recorded transactions. The number of houses sold in this district accounts for more than 50% of the total

transaction volume. Śródmieście and Nowa Huta are of marginal importance, which results from specific development of these districts (dense development, multi-family housing estates).

Number of houses sold in Podgórze accounted for more than 50% of the total transaction volume

Number of transactions in houses on the secondary market (2009–2017)



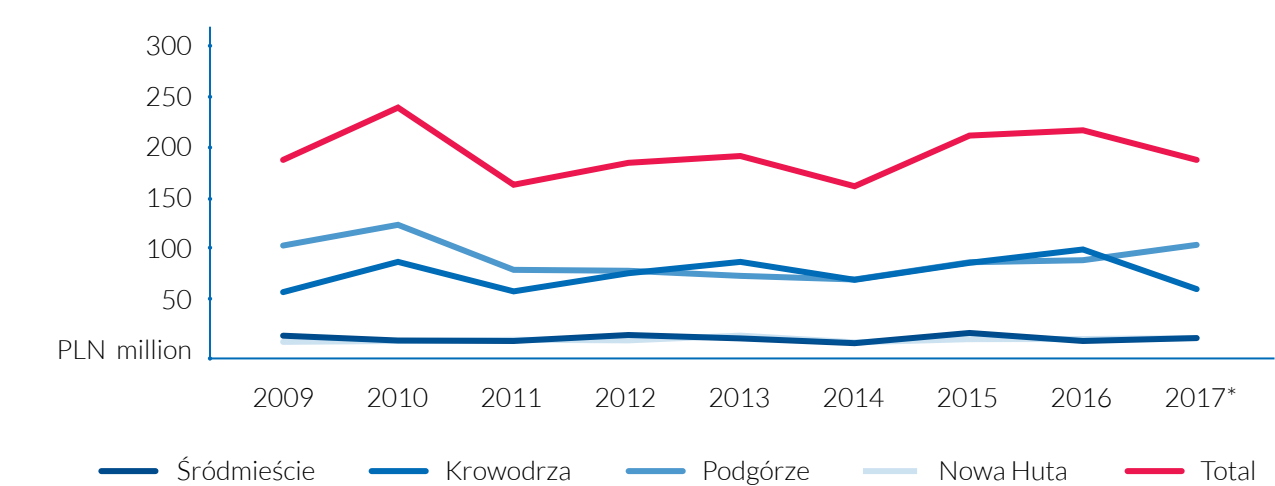
* estimated on the basis of incomplete data
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Following a period of slight increase, last year recorded a slide of total turnover, which is primarily the effect of decreased turnover in Krowodrza. In contrary, turnover in Podgórze demonstrated

the upward trend which confirms a recovery in the house segment in this area of Krakow. No significant changes were recorded in the remaining two districts.

SINGLE-FAMILY HOUSES

Total turnover in houses on the secondary market (2009–2017)



* estimated on the basis of incomplete data
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

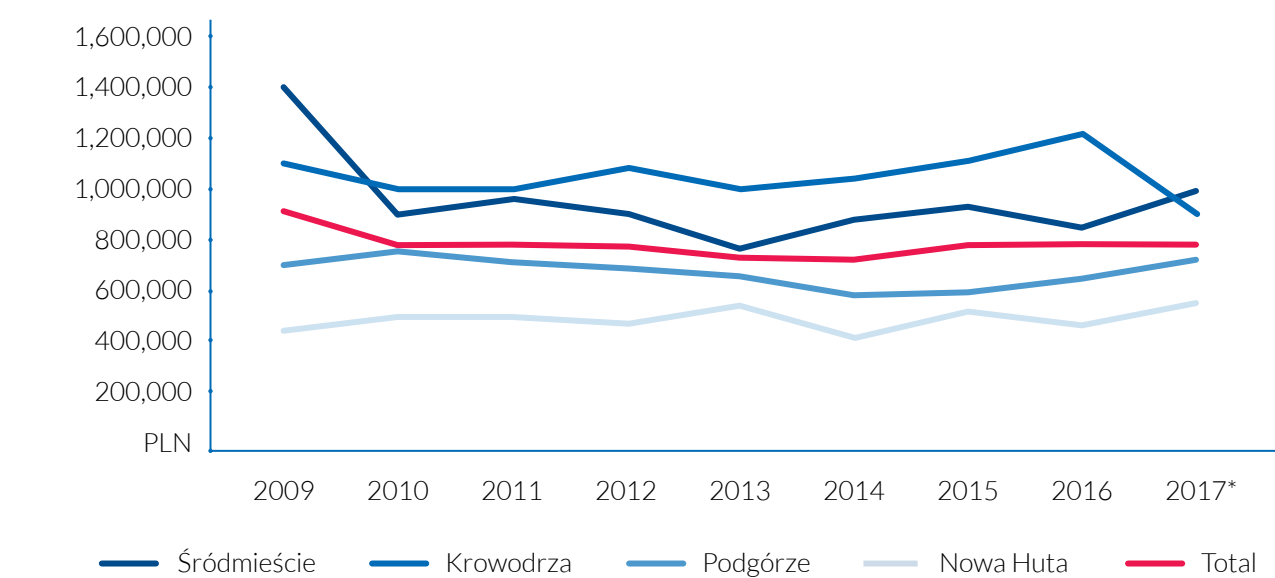


APPROX. PLN 800,000
average price for a house on the secondary market

Average prices continue to remain at the same level for another year in a row. A standard price for a house on the secondary market in Krakow is of approx. PLN 800 thousand.

In the most expensive district i.e. Krowodrza, a relatively significant fall of average prices – down to approx. PLN 900 thousand was recorded. The upward trend was observed in Podgórze with the average price for a house exceeding PLN 700 thousand. Another increase was recorded in Śródmieście with the average price for a house of PLN 1 million and in Nowa Huta (PLN 550 thousand), which is however of a marginal importance for the discussed segment.

Average prices for a house on the secondary market (2009–2017)



* estimated on the basis of incomplete data
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

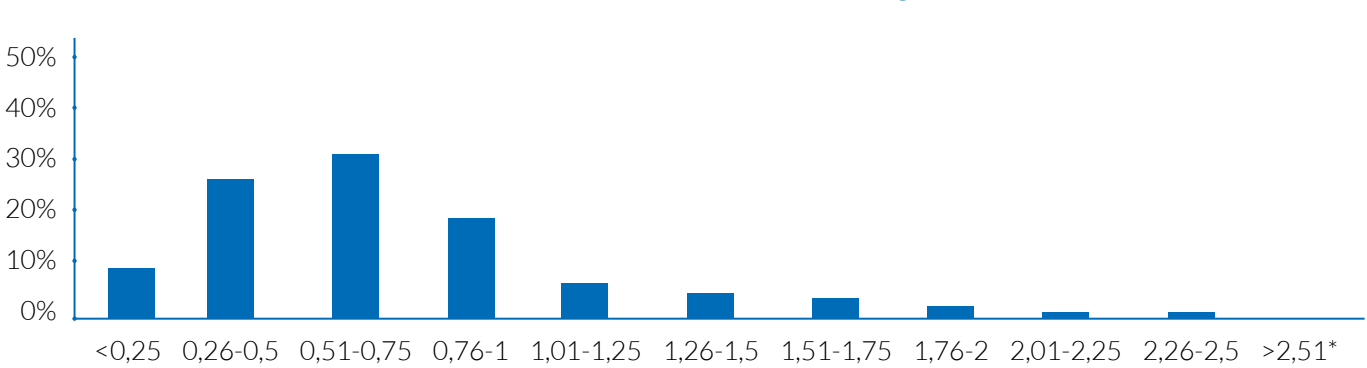
In 2017, the highest number of transactions (more than 50%) were made for houses with the prices falling within the range of PLN 250–750 thousand, whereas the transactions in the range of PLN 750 thousand – 2 million accounted for 34% of the total transaction number. Share of cheap houses in the market has decreased (below PLN 250 thousand).

Expensive houses (above PLN 2 million) played a marginal role on the market. No cases of sales of houses above PLN 2.5 million were recorded.

“Flattening of the secondary market of single-family houses” is observed – the number of cheap (up to PLN 250 thousand) and expensive houses (above PLN 2 million) is decreasing

Analysis of trend from the last several years demonstrates stabilisation of average prices at the level of approx. PLN 800 thousand with simultaneous drop of turnover.

Share of transactions in houses on the secondary market by price range (2017)



* PLN million
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

LANDS IN KRAKOW



In 2017, the land market in Krakow strengthened its upward price trend recorded since 2013

According to initial data, in 2017 the land market in Krakow experienced drop in turnover value and the number of transactions, whereas the prices were subject to rapid increase. Activity of assets involved primarily the investment areas intended for multi-family housing, although the intensified activity and spine of the buyers in acquiring the lands intended for hotel construction was noticeable. In both these segments the demand exceeded supply.

The announcements of the Monetary Policy Council on maintaining low interest rates up to 3Q 2019 and projections of the investment banks in this area strengthened the tendency to move assets from bank deposits both onto the primary housing market and partially – onto the land market.

Growing demand for apartments resulting in record sales of flats by developers in 2016 led to shrinkage of their market offer in 2017 and the need to supplement the land banks

In 2017 was the year of sporadically recorded market situations, in which the larger, nationwide developers repurchased the lands with finished investments from the recognised Krakow developers. The example is e.g. transaction in the area of Kliny Zacisze in Podgórze, where in January 2016, the Krakow medium-size developer purchased a land with building permit for multi-family housing of the area of 2.6 ha for net PLN 15 million and re-sold this land in August 2017 to the nationwide developer quoted on the stock exchange for PLN 18.75 million. Thus, its one and half-year profit reached 25%.

In effect of saturation of the office space market in Krakow, decreasing interests in plots intended for office construction and transfer of part of the assets onto the land market intended for hotel construction could be observed. Considering the fact that in 2017 Krakow hosted 13 millions of tourists (increase by 6% comparing to 2016), the need for the new hotel facilities cannot surprise.

In 2017 the following was recorded on estimate basis: 1,250 land transactions turnover of PLN 1.25 billion

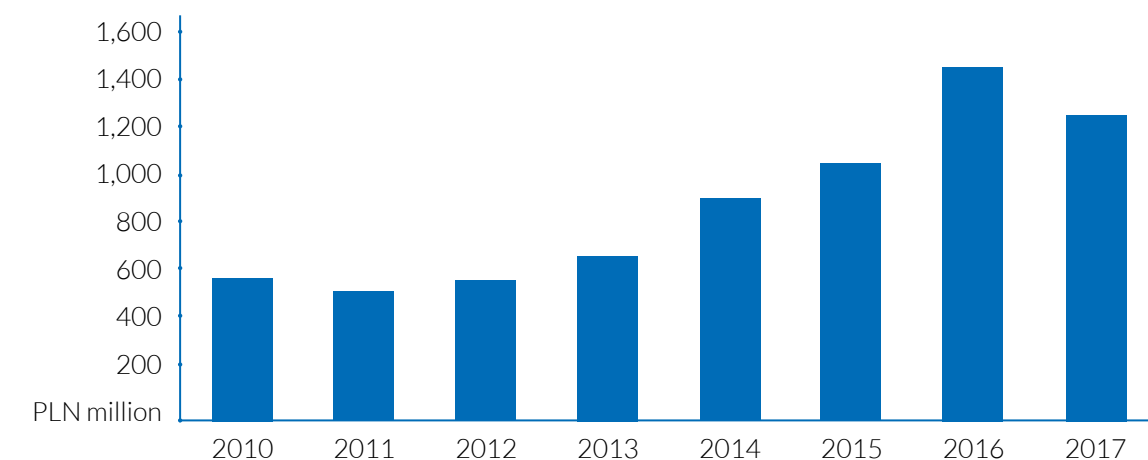
The Krakow land market recorded a significant price surge with simultaneous drop in the number of transactions and turnover volume comparing to 2016. Initial data demonstrate the 2017 turnover at the level of approx. PLN 1.25 billion for at least 1,250 transactions. One should take into account that these data are of initial nature and part of transactions has been not recognised yet. Complete data for 2017 can disaffirm drop in turnover. Corrected data for 2016 indicate the turnover of PLN 1.45 billion for 1,450 market transactions. Turnover on the land market in 2016 exceeded the 2006 turnover of PLN 1.4 billion. In the

remaining cycle, in 2007 the land market recorded a record turnover of PLN 2.5 billion, which was the forerunner of the upcoming peak boom and prices. According to the initial data, in this cycle the 2017 turnover did not exceed the 2016 level, thus it is possible that the upward trend will continue for some time.

The statistics demonstrate the increase in the unit value of transactions. In 2017, the segment of lands intended for multi-family housing recorded – depending on the district – increase in prices within the range of 15% and 25%.

While in 2016 in this cycle the land market experienced no rapid trends that occurred in 2007 and 2008, in which the prices increased by several dozen percent a year, in 2017 the price surge has noticeably intensified and this trend continues.

Turnover on the land market in Krakow (2010–2017)*



* data do not include lands purchased by the Municipality and the State Treasury for delivery of road infrastructure investments and contributions in-kind between different entities. Initial estimates for 2017

Source: Institute of Real Estate Market Monitor Analysis mrn.pl

LANDS IN KRAKOW

Number of transactions on the land market in Krakow (2010–2017)*

YEAR	2010	2011	2012	2013	2014	2015	2016	2017
TRANSACTION NUMBER	750	650	600	750	900	1,150	1,450	1,250

* data do not include non-market transactions and lands purchased by the Municipality and the State Treasury for delivery of road infrastructure investments and contributions in-kind between different entities. Initial estimates for 2017

Source: Institute of Real Estate Market Monitor Analysis mrn.pl

PLN 730/m² – average transaction price for construction lands

In 2017, average transaction price for construction lands in Krakow amounted to approx. PLN 730/m² and were by 14% higher comparing to 2016.

The highest number of transactions, as in the previous years, was made for the single-family housing plots. Their share in the total number of transactions in construction lands amounted to approx. 50%, as in the previous years.



TRADING IN LANDS IN 2017

- 60% – plots for multi-family, residential and commercial development
- 25% – commercial plots
- 15% – plots for single-family housing

The market of lands for multi-family and residential and commercial development in terms of turnover volume in the individual districts of Krakow was more sustainable comparing to 2016. The investors divided the funds between Podgórze, Krowodrza and Śródmieście by approx. 30% of the turnover volume. Average unit prices of land in Podgórze and Śródmieście increased by approx. 20%, up to PLN 1,450/m² and PLN 2,750/m², respectively. Increase in Krowodrza and Nowa Huta was lower – at the level of 10-15%. In the case of Krowodrza, this results from higher number of transactions in the less expensive regions at the outskirts and in locations with lower permissible development intensity rather from lower increase in prices of attractive plots.

Prices of residential plots in terms of usable space of apartments increased comparing to 2016

In Krowodrza, the average transaction price increased in 2017 to up to PLN 1,650/m².



In this district, a large investment area intended for multi-family development and services of the area exceeding 8 ha and of complicated transport system – located between the railway lines – was sold for the price of PLN 54 million (PLN 660/m²). In addition, the areas located in Łobzowo were popular – a Krakow developer purchased the 0.7 ha plot for PLN 27 million (PLN 3,700/m²) near the A. Głowackiego Street.

The most eye-catching transactions in the Śródmieście district were the ones concerning the plots along the Rakowicka Street:

- in the tender announced by the Military Property Agency, a Krakow developer purchased the area intended for multi-family housing exceeding 1.6 ha for more than PLN 38 million (PLN 2,180/m²)
- the plots of the area above 2.5 ha at the Wita Stwosza Street were sold for PLN 60 million (approx. PLN 2,400/m²).

The highest unit price of land in the 2017 transactions in Krakow was recorded for infill plot located at the Miodowa Street of the area not exceeding 200 m² and sold for more than PLN 22,400/m². High temperature on the market of plots intended for hotel construction in Śródmieście proves the profit acquired on transactions of plot of the area of nearly 800 m² and located at the S. Worcella Street next to the Krakow Gallery – the plot bought in August 2017 for PLN 9 million (approx. PLN 11,700/m²) was sold by the investor in February 2018 to Orbis for PLN 13 million (nearly PLN 16,900/m²).

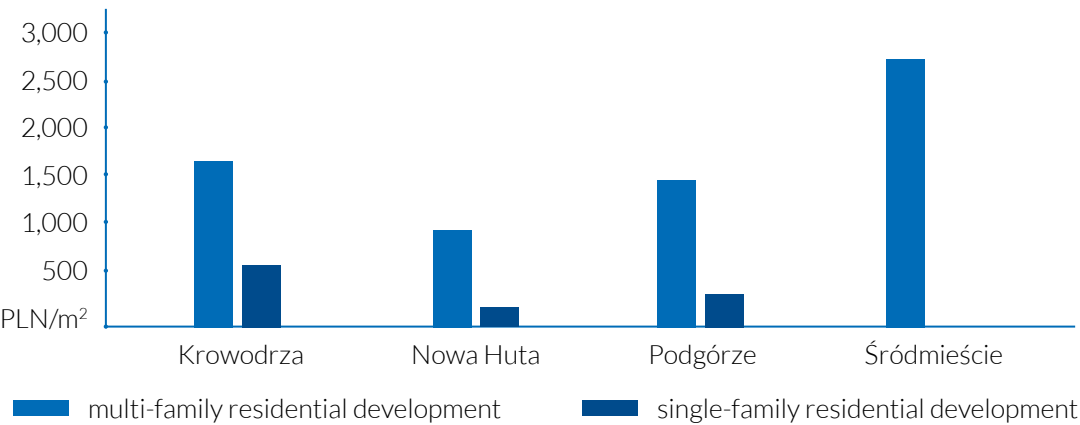
Pogórze observed intensive trading in lands both at the outskirts (Płaszów, Wola Duchacka, Bieżanów and Ruczaj), and in the close centre of the Stare Podgórze along the Bulwary Wiślane (Vistula Boulevards). The record transaction was made on the small plot at the Staromostowa Street of the area below 2.5 a and sold for net PLN 3.34 million (more than PLN 13,600/m²). The title of 2017 investment discovery went to the undeveloped areas of Kliny Zacisze and Kliny Południe situated over the southern bypass of Krakow, where both the Krakow and domestic investors purchased large plots for low-rise multi-family development paying from several to several dozen PLN million. Unit price with building permit fluctuated depending on intensity of development from below PLN 400/m² to more than PLN 700/m². In February 2018, BGK Nieruchomości notified of purchase in this area of the investment plot of approx. 50 ha under the Mieszkanie Plus (Apartment Plus) programme. In 1994–1998, recognised Krakow investors purchased plots in this area (in these days intended for agriculture) as arable lands for PLN 10/m².

In Nowa Huta, due to high number of transactions in the areas adjoining the Śródmieście (along the S. Lema Street, where the developers have purchased lands for between PLN 900–1,200/m²), the average unit prices increased up to approx. PLN 920/m².

Activity of the investors in the new areas of Krakow e.g. Kliny Zacisze and Kliny Południe, where the new buildings are constructed on broad and undeveloped lands, was noticeable

LANDS IN KRAKOW

Average prices of lands intended for residential development: single- and multi-family (2017)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

The market of plots intended for single-family development demonstrated non-symmetric price trend comparing to 2016. 7-10% increase in prices was observed in Krowodrza and Nowa Huta. Pogórze recorded no significant price surge, most probably due to constant supply resulting from broad areas covered with land development plans.

Segment of plots intended for hotel construction ruled by the principle of “must-be-filled” orders has drawn interest. Despite the already mentioned transaction at the S. Worcella Street, plenty of investments were recorded at the 3 Maja Alley, at which the plots intended for tourist service i.e. with permitted hotel and recreation development and

with prices ranging between PLN 1,800/m² and more than PLN 3,500/m² depending on access to and location of the area against the alley, were sold.

Diminished interest caused by saturation of the market with office space was observed in the segment of plots intended for office development. The most attractive transactions include purchase of land of 1.2 ha at the Wielicka Street for net PLN 18 million (PLN 1,507/m² of the plot). This is the subsequent location of the investment around the Krakow City Office. In addition, at the J. Kilińskiego Street near the Grunwaldzkie roundabout and opposite to the Congress Centre, with a view towards the Wawel Castle and Na Skałce church, a small (6 a) plot with building permit was sold once again for PLN 6.8 million, i.e. for the record unit price of PLN 10,900/m² of the plot and approx. PLN 2,800/m² of usable space.

Prices of commercial plots intended for commerce shaped within the range of PLN 300-2,000/m². The most attractive transactions include sales of plots of the area exceeding 80 a at the Zakopiańska Street, with building permit issued for commercial and service pavilion, next to the Zakopianka shopping mall, Social Insurance Institution building

and the areas of the former Armatura plants with the Agata and Merkur Market stores for PLN 13 million (PLN 1,500/m² of land).

The industrial or industrial and commercial plot market existing primarily in Podgórze and Nowa Huta displayed price stagnation with simultaneous low number of transactions. Price level in the key industrial areas of these districts, i.e. in Rybitwy and Łęg, fluctuated between PLN 200–350/m² and PLN 150–300/m², respectively. Transactions near the Sendzimira Smelter along the Łowińskiego and Ujastek Streets were observed, with the prices reaching PLN 300/m². This price level goes beyond the expectations of investors on this market, thus the industrial investment are usually located outside Krakow.

In 2017, supply of plots of average legal and planning status in a relatively attractive price depleted. The only plots available on the markets demonstrate more complicated legal and investment status requiring regulation of plenty of issues from the investment perspective. Any „clear and transparent” lands remaining on the real-estate market have gone up in price and await the acceptance of the new and higher prices by the buyers.

SINGLE-FAMILY HOUSES IN THE SUBURBS

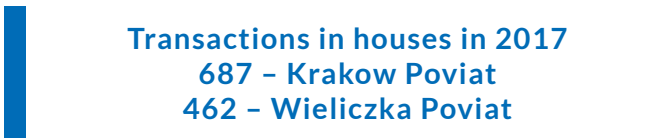


The real-estates located within the Wieliczka Powiat attract increasing interest of the buyers and are a worth considering alternative for Krakow

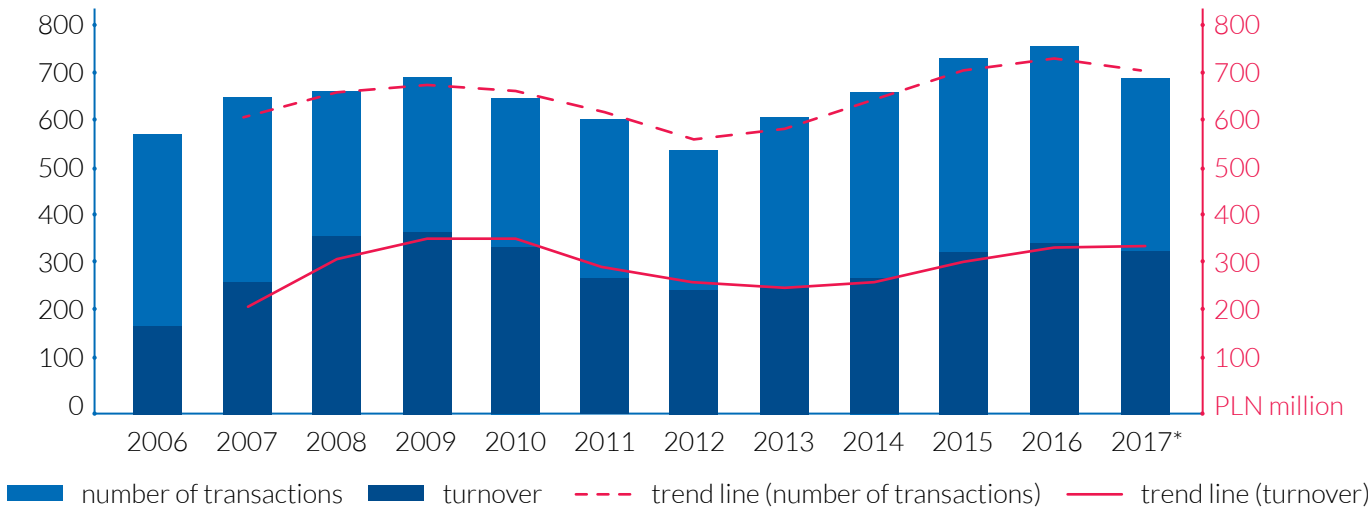
Analysis of transactions in real-estates developed with single-family houses demonstrates that after four years of increase between 2012 and 2016 with a breakthrough in 2017. Since 2013, the number of transactions in the Krakow powiat has exceeded 600, in 2016 a multi-annual record of 759 transactions was recorded, whereas the estimate for 2017 provide 687 transactions. Turnover volume described on the right vertical axis of the chart is correlated with the increased number of transactions which demonstrates stabilisation of the

prices of real-estates developed with single-family houses.

Current positive situation on the real-estate market brings hope that the downward trend displayed by the trend lines will be hampered this year.



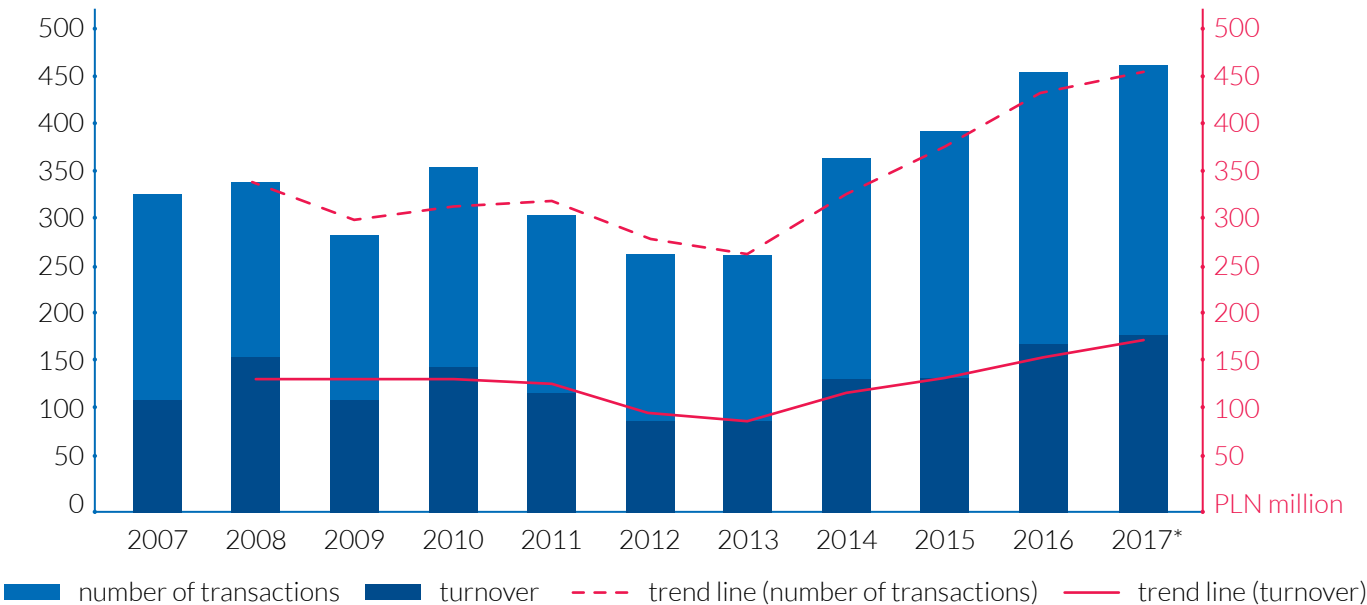
Number of transactions and turnover on houses in the Krakow powiat (2006–2017)



* estimated on the basis of incomplete data

Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Number of transactions and turnover on houses in the Wieliczka powiat (2007–2017)



* estimated on the basis of incomplete data

Source: Institute of Real Estate Market Monitor Analysis mrn.pl

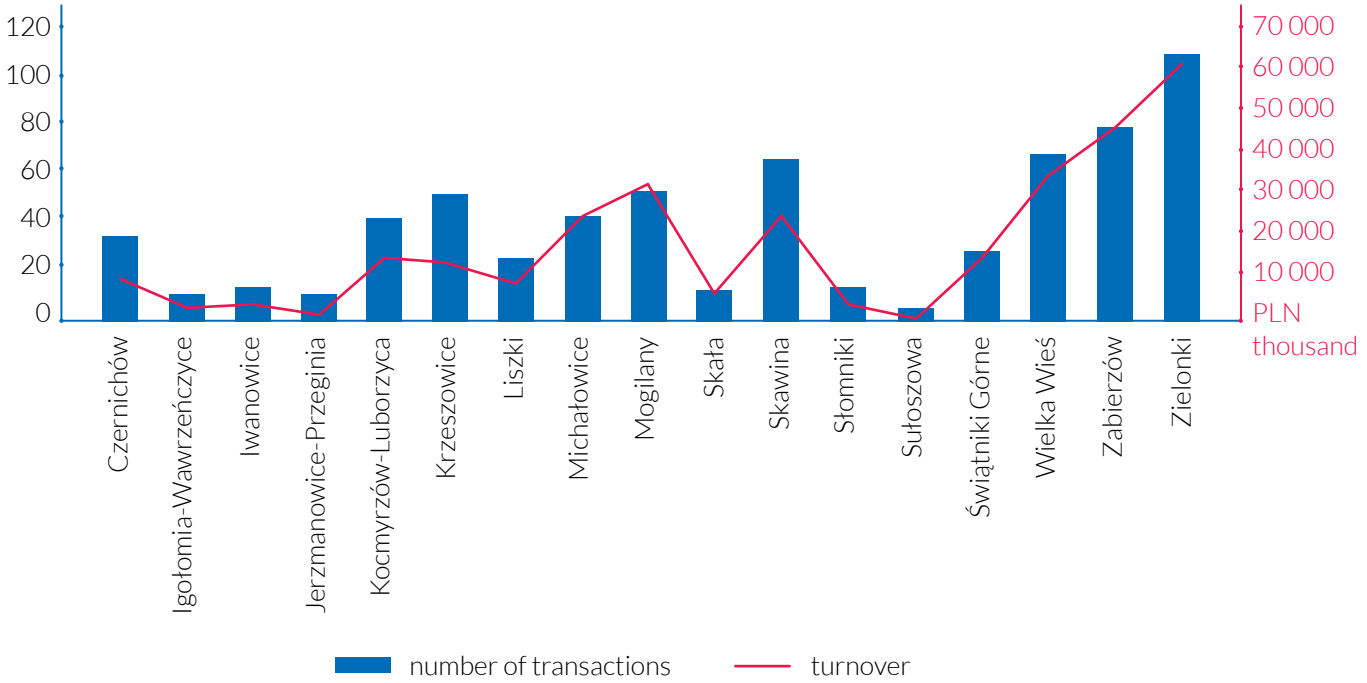


SINGLE-FAMILY HOUSES IN THE SUBURBS

Traditionally, In 2017 the greatest number of transactions in single-family housing was recorded in the Zielonki and Zabierzów communes, followed by Wielka Wieś, although intensified trading in Skawina is a non-standard phenomenon. Simiarly to the previous year, the undisputed leader is the Zielonki commune located at the northern border of Krakow. The communes with increased

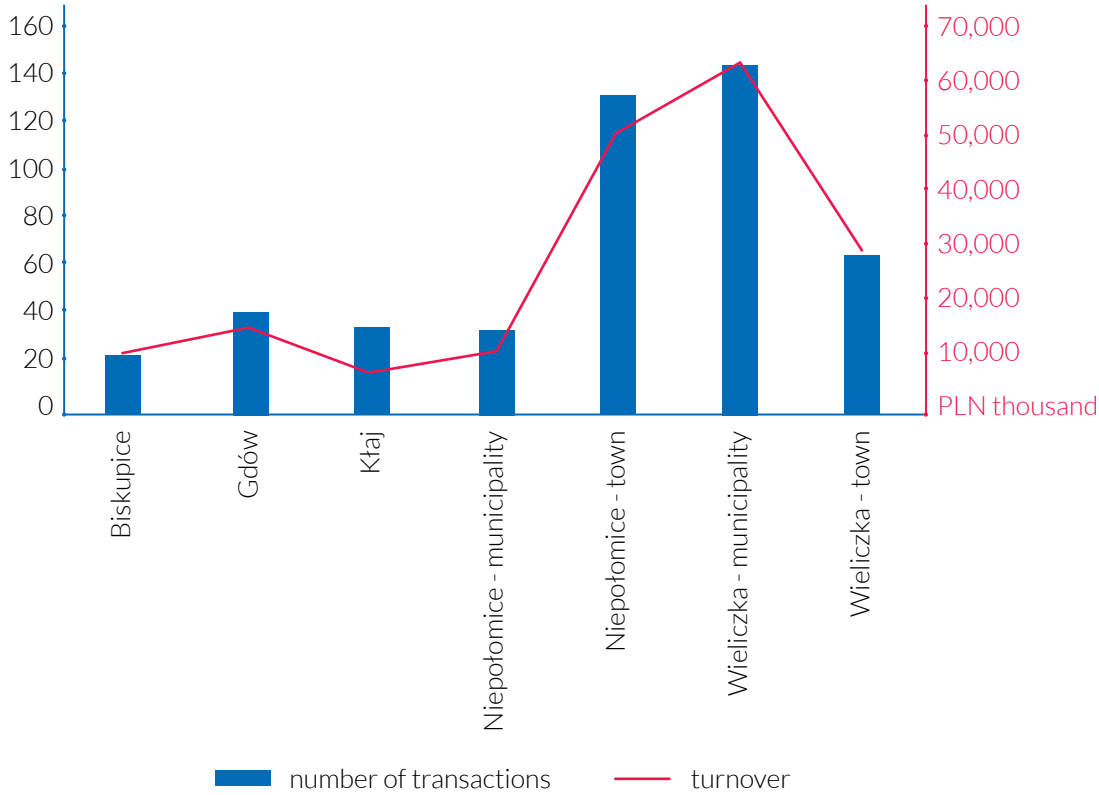
number of transactions comparing to 2016 include Wielka Wieś, Skawina and Krzeszowice i.e. the areas located in a greater distance from the Krakow centre. Maximum values presented on the turnover volume chart correspond with maximum values related to transaction number. In 2017, the highest transaction price was recorded in the Mogilany locality for sales of 400 m² residence on 10 a plot for PLN 4.1 million.

Number of transactions and turnover on houses in the Krakow poviat communes (2017)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Number of transactions and turnover on houses in the Wieliczka poviat communes (2017)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

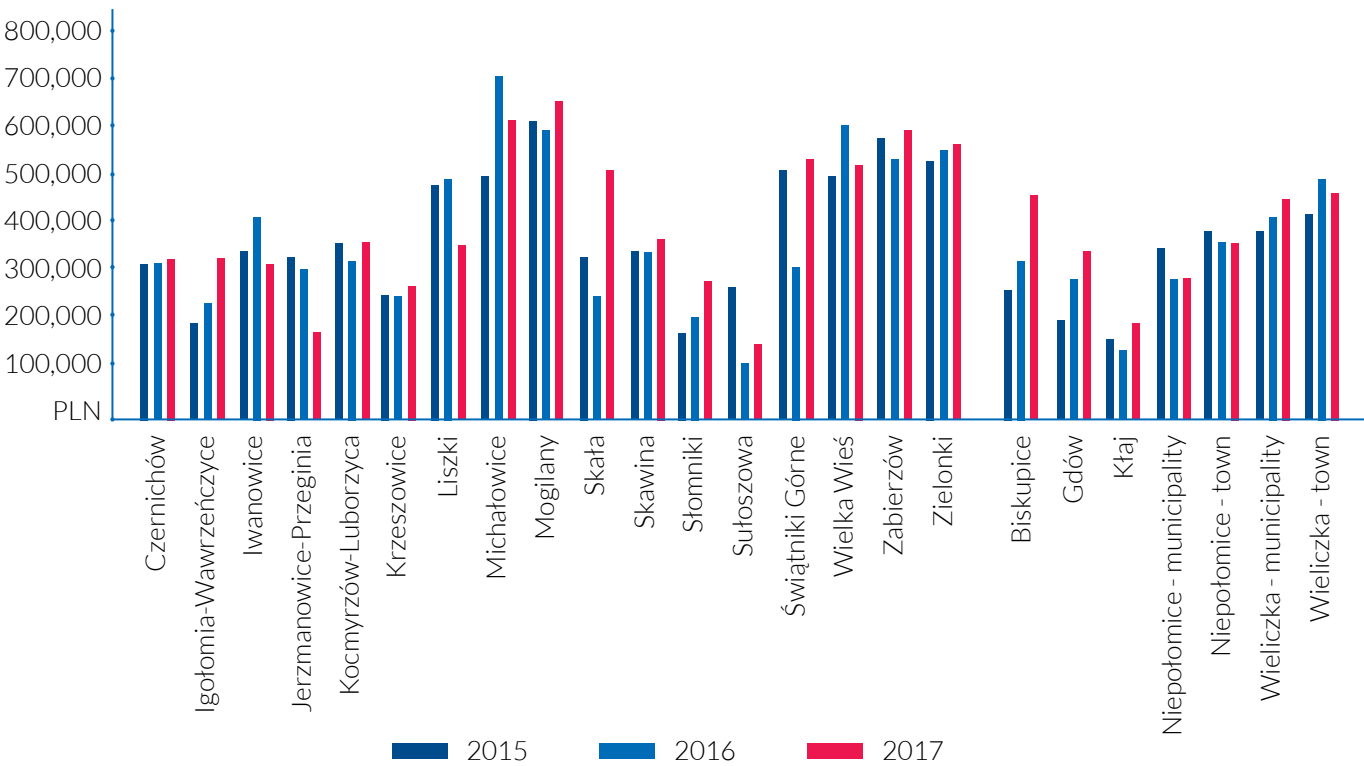
In the Wieliczka poviat, the highest activity was traditionally recorded in the city and commune of Wieliczka and as in 2016, high number of purchase and sales agreements was entered into in the city of Niepołomice. The highest transaction of 2016

was purchase of a minor (approx. 400 m²), with additional warehouse and background facilities on the plot above 2 ha in one of the villages in the Gdów commune – the transaction value reached PLN 2.6 million.



SINGLE-FAMILY HOUSES IN THE SUBURBS

Annual transaction price for a house in the Krakow and Wieliczka poviat communes (2015–2017)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

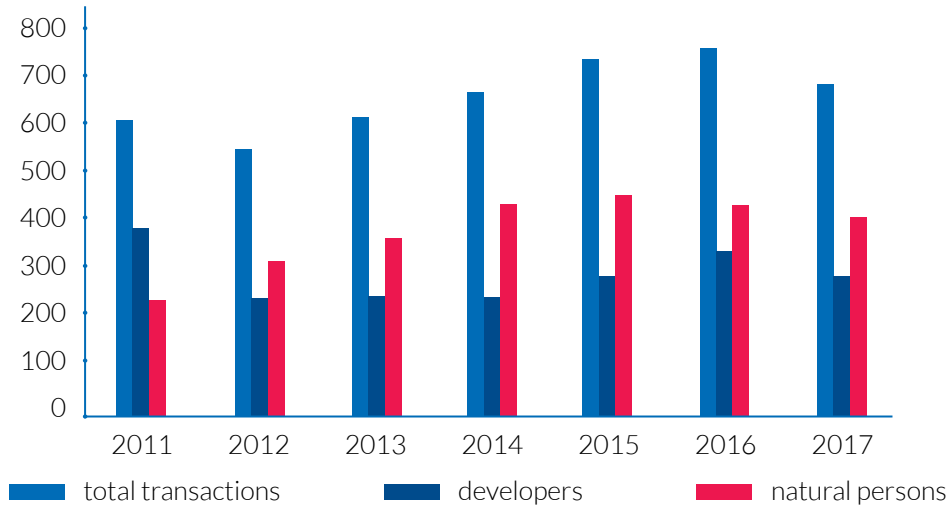
Historical analysis of average transaction prices within the Krakow poviat revealed significant differences between the individual communes. In most cases, increase of prices in 2017 comparing to 2016 is observed. In the Zielonki and Skawina communes, a continuous four-year growth of average prices per real-estate is noticeable, whereas in the Skąta, Skawina, Świątniki Górne, Zabierzów and Zielonki communes multi-annual maximums were recorded.

Comparing to 2016, in four of seven communes of the Wieliczka poviat, an increase in average transaction price was recorded, followed by drop in one commune and in 2 – stabilisation. When analysing data from this poviat, one can observe an actual surge in the number of transactions in the city of Niepołomice (in 2015– 48, in 2016 – 94 and in 2017 – 131). In 2017, this number reached the results achievable in Wieliczka – the city with annual rate of 130–140 transactions. Average price per a house in Niepołomice remains at highly stable level.

The greatest activity of the developers measured by the number of transactions and achieved in 2011 in the Krakow poviat is, to this day, unbeatable. This number has increased for subsequent years following the 2012 drop until the slowdown in 2017.

The number of developer transactions in 2017 in the Wieliczka poviat confirms recovery of this market segment observed from 3 years. Activity among natural persons dropped in 2017.

Number of transactions made by the developers and natural persons in the Krakow poviat (2011–2017)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Number of transactions made by the developers and natural persons in the Wieliczka poviat (2011–2017)



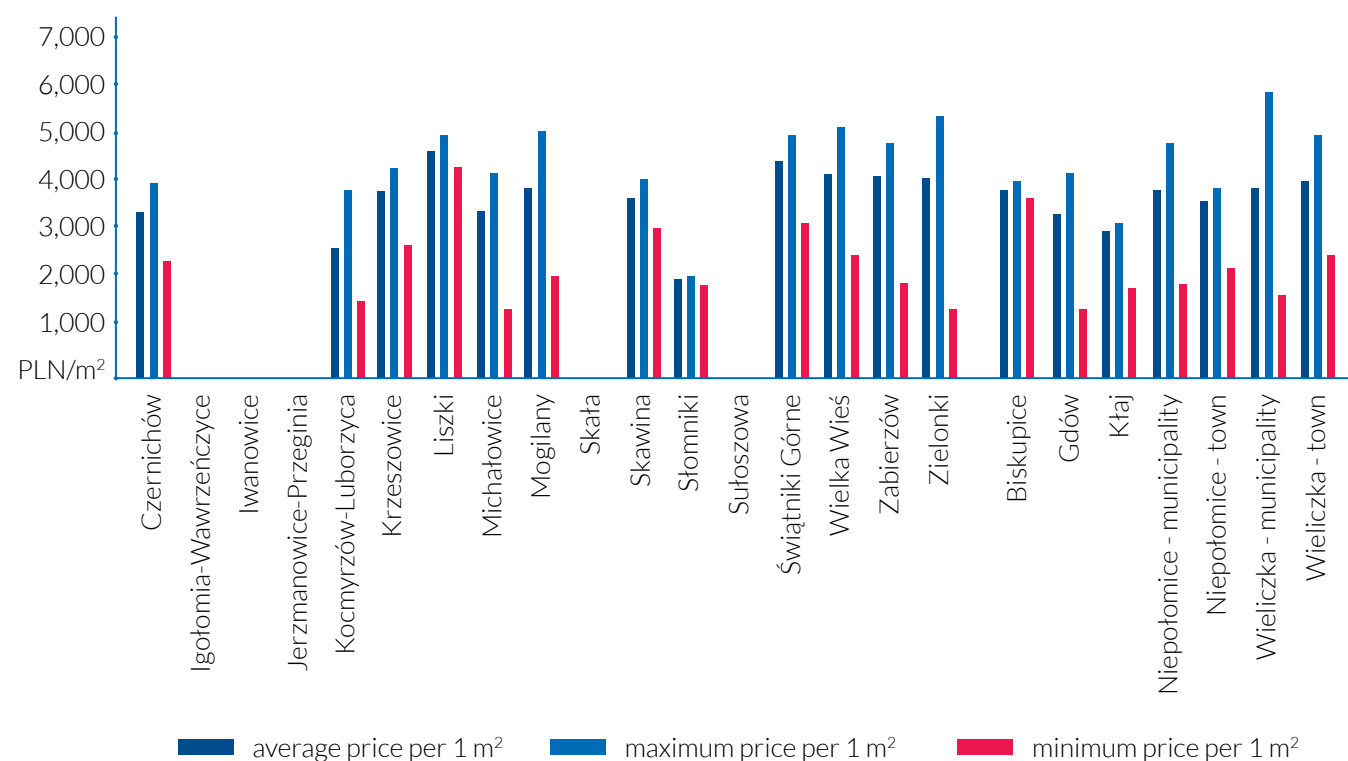
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

SINGLE-FAMILY HOUSES IN THE SUBURBS

The communes with high number of developer transactions show significant differences between the maximum and minimum price. Purchase of a house in developer state in an attractive location is associated with the costs of approx. PLN 5,000/m².

In the Wieliczka powiat, the developers carried out their activity predominantly within the Niepołomice and Wieliczka communes and increasingly frequently – in Gdów. Developer investments at the area of Kłaj and Biskupice communes were rather occasional and related to small companies of the companies, in most cases one-man businesses.

Minimum, average and maximum prices per 1 m² of a house in the communes of the Krakow and Wieliczka poviats in developer transactions* (2017)



* no bars means no developer transactions in a given commune

Source: Institute of Real Estate Market Monitor Analysis mrn.pl

The amount of PLN 500–600 thousand enabled purchase of a single-family house near Krakow both on the primary (developer) market and on the secondary market

Long-term analysis of data in the communes indicates high variability in the individual years, both on the primary and secondary market,

although the global trend in both analysed poviats is upward.

The price continues to be the key offer selection criterion for many customers, which translates into undiminished interest in cheaper real-estates located in a greater distance from the Krakow borders. Also the real-estates developed with houses intended for demolition or general renovation on large plots are purchased.



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LANDS IN THE KRAKOW POVIAT

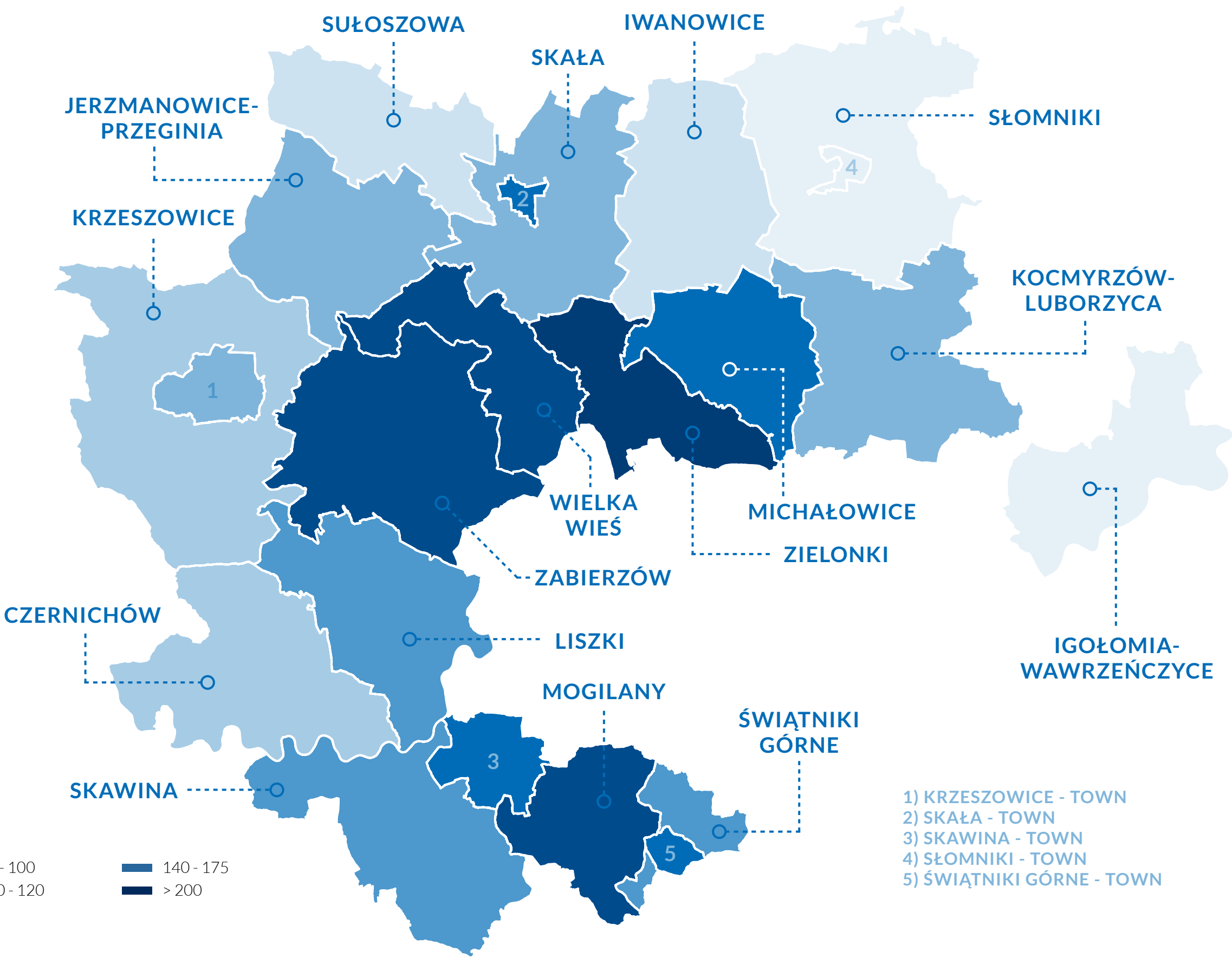
The administrative borders of Krakow fail to overlap with the borders of investment market developing also at the area of the adjoining communes

Within the period of economic growth measured by the number of investments, the market of sub-Krakow land real-estates has become an alternative for the agglomeration with its limitations in space. Development of the Krakow poviats, and in particular of the communes adjoining Krakow, combined with still competitive prices of investment lands comparing to Krakow, has attracted both the individual investors and developers to the poviats. In recent years, an increasing number of developer investments has been observed, provided that the individual investment hold dominant share in the total number of transactions – approx. 80% in the issued building permits, which translates into more than 70% of residential space.

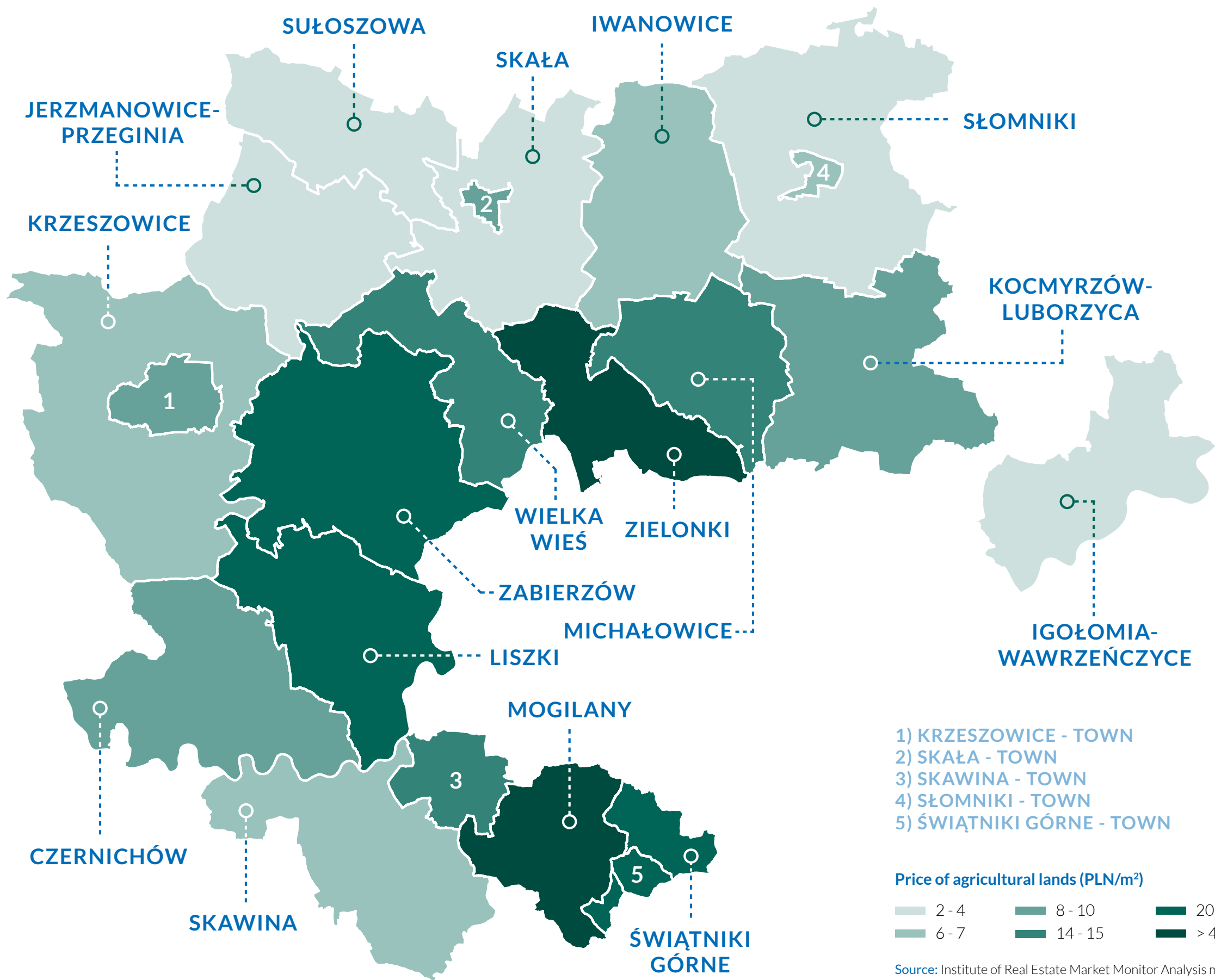
Prices of construction lands (PLN/m²)

30 - 45	60 - 65	90 - 100	140 - 175
50 - 55	70 - 80	110 - 120	> 200

Source: Institute of Real Estate Market Monitor Analysis mrn.pl



LANDS IN THE KRAKOW POVIAT

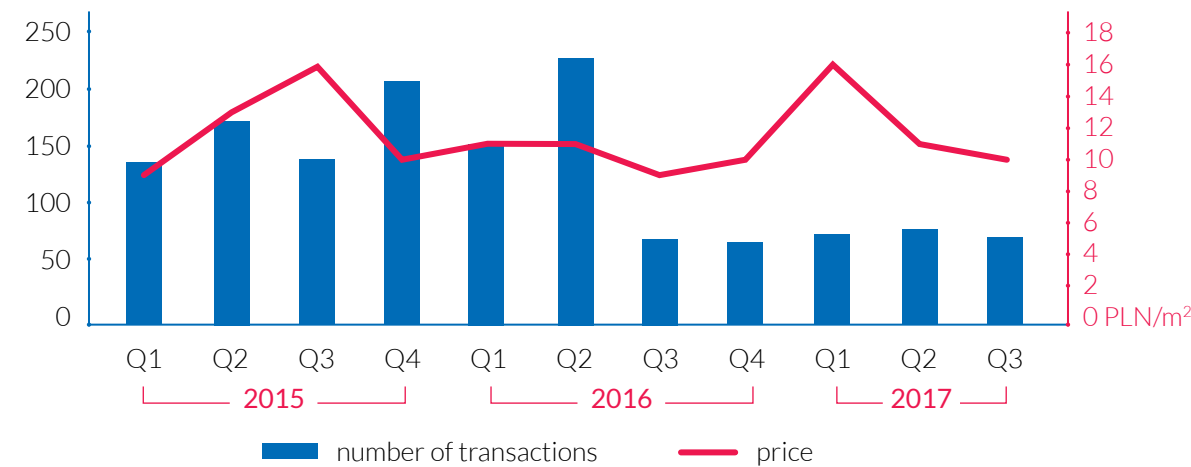


The Krakow poviats show the increase in the number of developer investments and drop of the number of transactions in the agricultural land sector

2017 was the breakthrough year for the period of stagnation of land prices in the Krakow poviats lasting for several years. The agricultural property market responded to the state policy. The effects of the Act of 14 April 2016 on suspending the sales of real-estates of the Agricultural Property Stock of the State Treasury and on amendment of certain acts, which limited trading in agricultural property, are visible. Drop in the number of transactions in agricultural lands – resulting from legal restrictions – translated into growth of prices in this market segment. The number of transactions in large agricultural lands recorded a sudden drop and was accompanied with continuous level of trading in agricultural lands of the area up to 30 a. This is the reason behind the rise of average prices of agricultural properties, visible primarily at the area of communes adjoining the Krakow agglomeration.

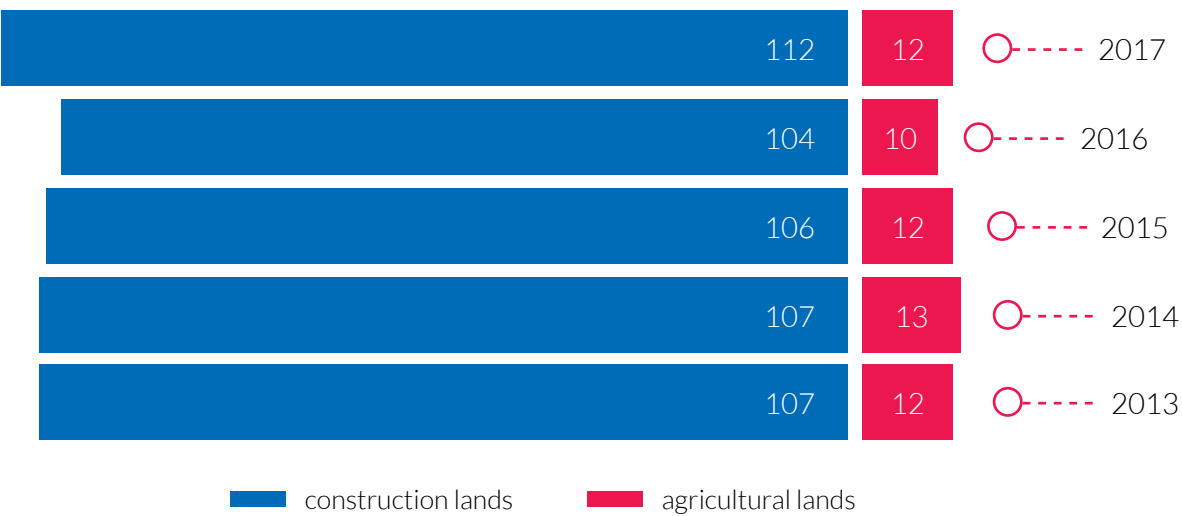
LANDS IN THE KRAKOW POVIAT

Transactions in agricultural lands of the Krakow poviat by quarters (2015–2017)



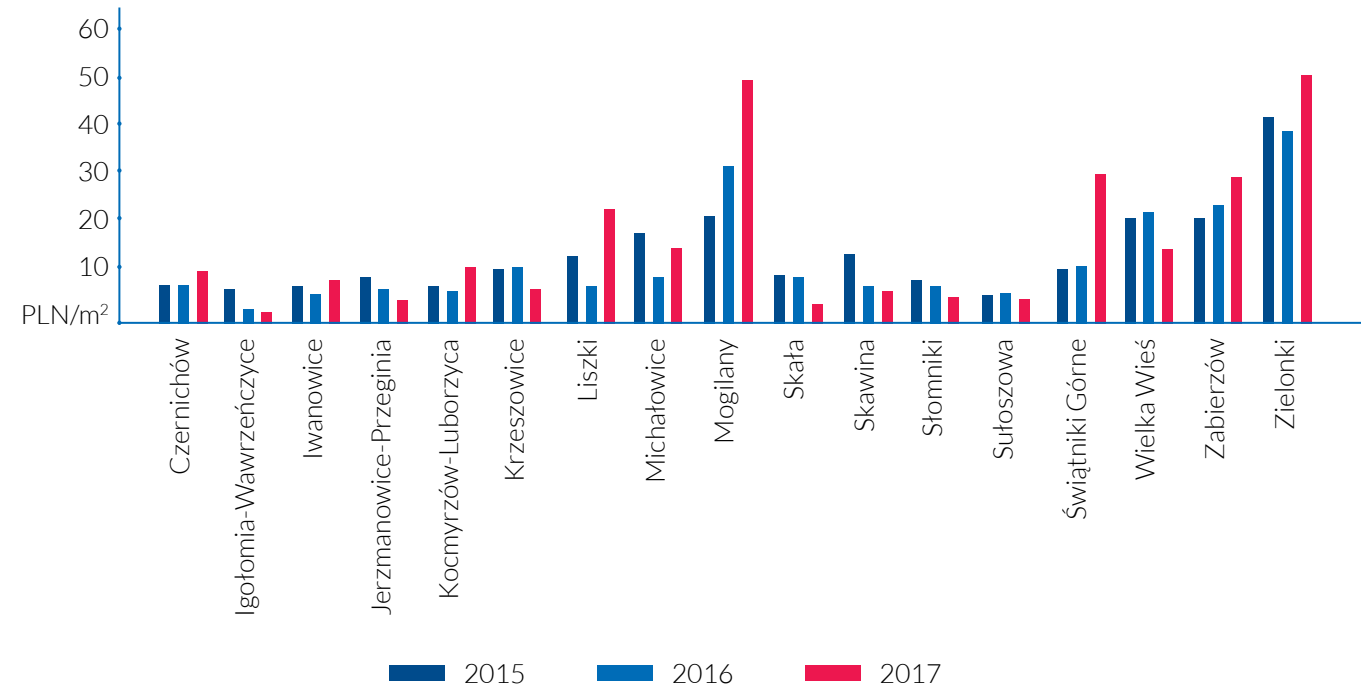
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Average unit prices (PLN/m²) of agricultural and construction lands of the Krakow poviat (2013–2017)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Average unit prices of agricultural lands in the communes of the Krakow poviat (2015–2017)

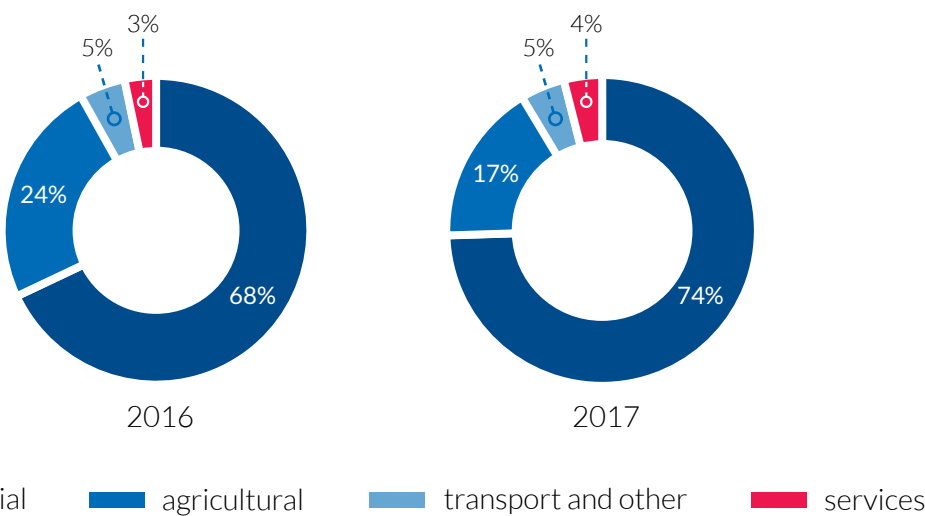


Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Trading in agricultural lands constitutes nearly 20% of the total transaction number recorded in the Krakow poviat.

Transfer of lands intended for residential housing has been constantly dominating for years.

Structure of transactions by intended use of lands (2016–2017)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl

LANDS IN THE KRAKOW POVIAT

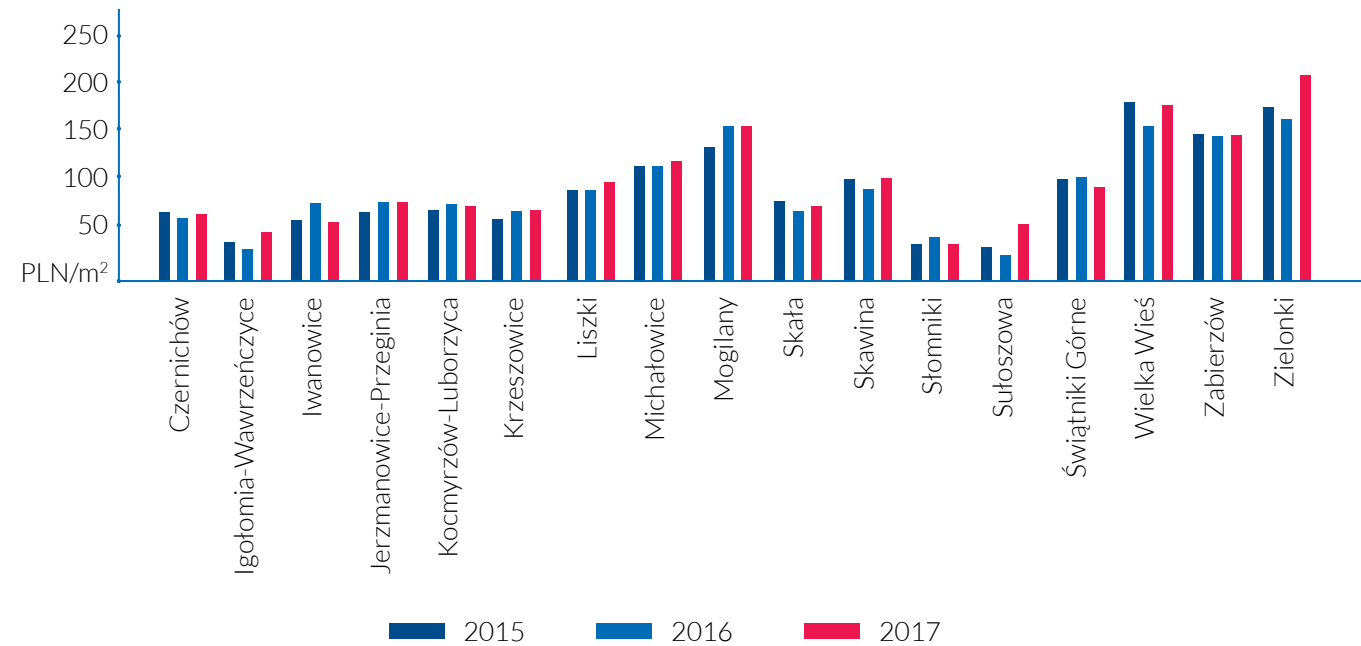


While the residential needs remain unsatisfied, the area of Krakow proved to be insufficient for the investment market, which somehow absorbed the adjoining areas: Liszki, Michałowice, Mogilany, Skawina, Wielka Wieś, Zabierzów and Zielonki communes, thus delineating the new borders of the investment market and ultimately – perhaps even of the Krakow agglomeration.

The highest increase in prices was recorded in the Zielonki commune

The year 2017 belonged to the Zielonki commune that recorded the highest increase in prices. This commune showed also the greatest increase of residential investments. It is followed by Wielka Wieś with the average price at the level of this recorded in 2015. Also the Liszki commune with several year-long stagnation broken down in 2017 should be taken into account.

Average unit prices of construction lands in the Krakow poviats communes (2015–2017)



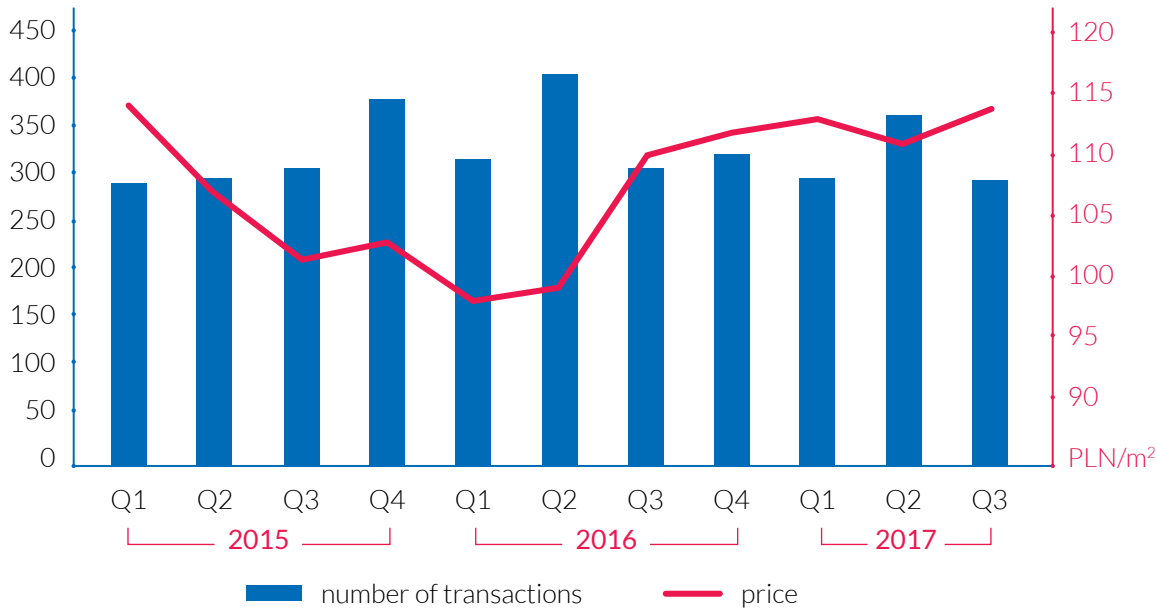
Source: Institute of Real Estate Market Monitor Analysis mrn.pl

Prices of construction lands reach the threshold value

Increase in the number of developer investments at the poviats area, rise of prices on the investment market and constant number of transactions in construction lands prove that the prices in this market sector slowly reach their threshold value.

Market of land properties with residential function is in the blooming period

Quantum transactions in construction lands in the Krakow poviats (2015–2017)



Source: Institute of Real Estate Market Monitor Analysis mrn.pl



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