ECONOMY

2007 Report

Krakow Real Estate Market

KRAKÓW

THE MUNICIPALITY OF KRAKOW

City Strategy and Development Department

Table of contents

Krakow Boroughs

The report encompasses such regions named as Śródmieście, Krowodrza, Podgórze and Nowa Huta, the city's former boroughs. From March 27, 1991, Krakow has been divided into 18 administrative boroughs. Their distribution in relation to the former four primary boroughs is presented in the table below and a map included inside the cover of this publication

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 (http://www.nbp.pl). Archival data (monthly average exchange rates, exchange rates as of the end of the month, exchange rates – yearly lists) from 1998 are available in the table:

http://www.nbp.pl/kursy/archiwum/internet.xls.

Krakow's Socio-Economic Potential

This chapter presents selected statistics that describe the socio-economic background of the real estate market in Krakow.

We also encourage you to become familiar with the detailed statistical publications of the Krakow Municipality and Krakow Statistical Office available on the Internet:

- Reports on the City's Condition
  http://www.krakow.pl/gospodarka/?id=raporty
  or
  http://www.bip.krakow.pl/?id=509
  (available only in Polish)
- Kraków w liczbach [Krakow in Figures] publication
  http://www.bip.krakow.pl/?mmi=6353
  (available in Polish and in English)
- Biuletyny Statystyczne Miasta Krakowa
  [Krakow Statistical Bulletins]
  http://www.bip.krakow.pl/?sub_dok_id=708
  (available only in Polish)

Measures used in Poland

1 ar = 100 m^2 = 0.01 hectare (ha)

1 hectare = 10 000 m^2 = 100 ars (ar)

Used in English speaking countries

1 acre (UK) = 40.47 ars (ar) = 0.40 hectare (ha)

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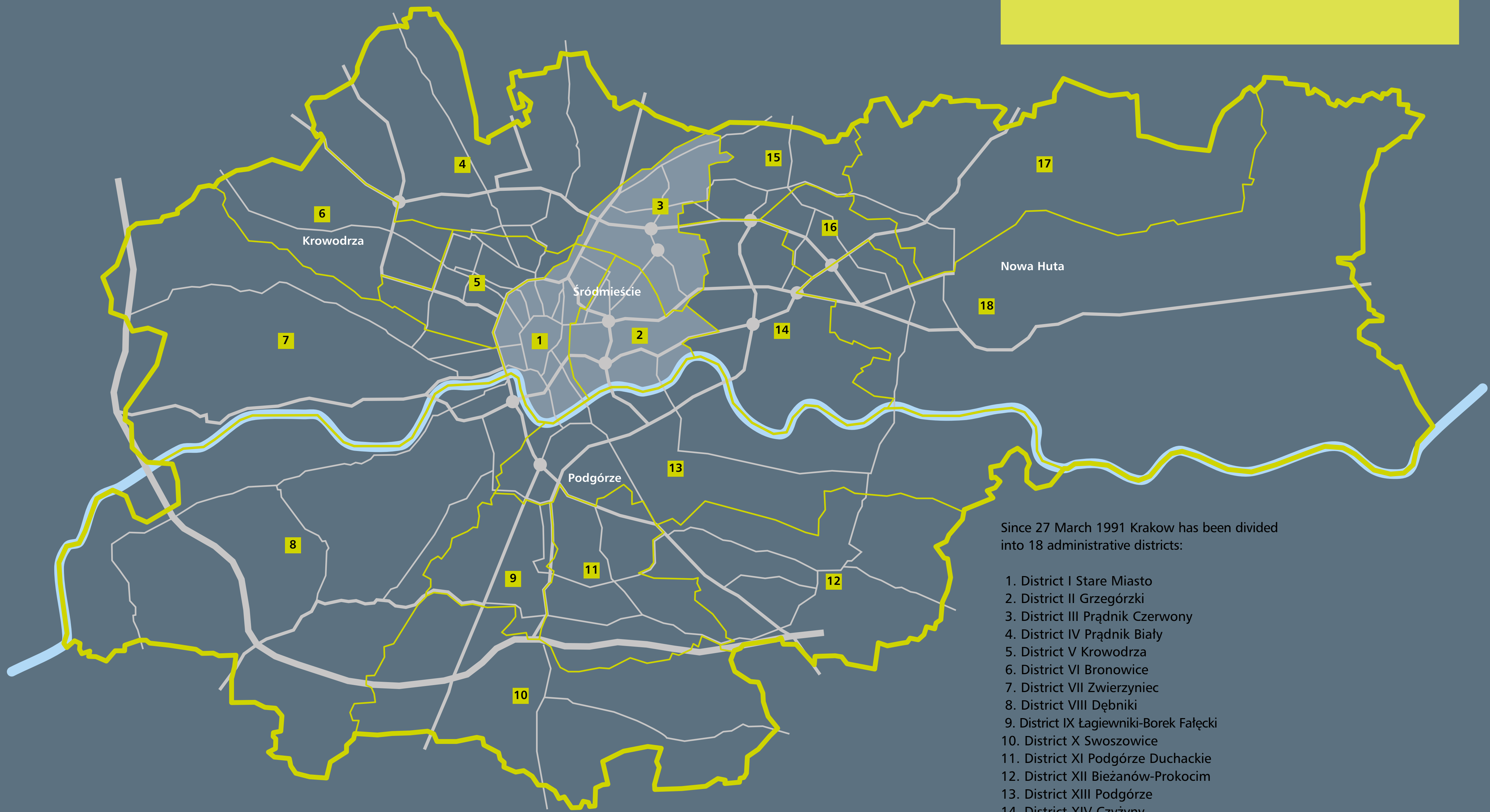
map of the Krakow districts



Since 27 March 1991 Krakow has been divided into 18 administrative districts:

1. District I Stare Miasto
2. District II Grzegórzki
3. District III Prądnik Czerwony
4. District IV Prądnik Biały
5. District V Krowodrza
6. District VI Bronowice
7. District VII Zwierzyniec
8. District VIII Dębniki
9. District IX Łagiewniki-Borek Fałęcki
10. District X Swoszowice
11. District XI Podgórze Duchackie
12. District XII Bieżanów-Prokocim
13. District XIII Podgórze
14. District XIV Czyżyny
15. District XV Mistrzejowice
16. District XVI Bieńczyce
17. District XVII Wzgórza Krzesławickie
18. District XVIII Nowa Huta

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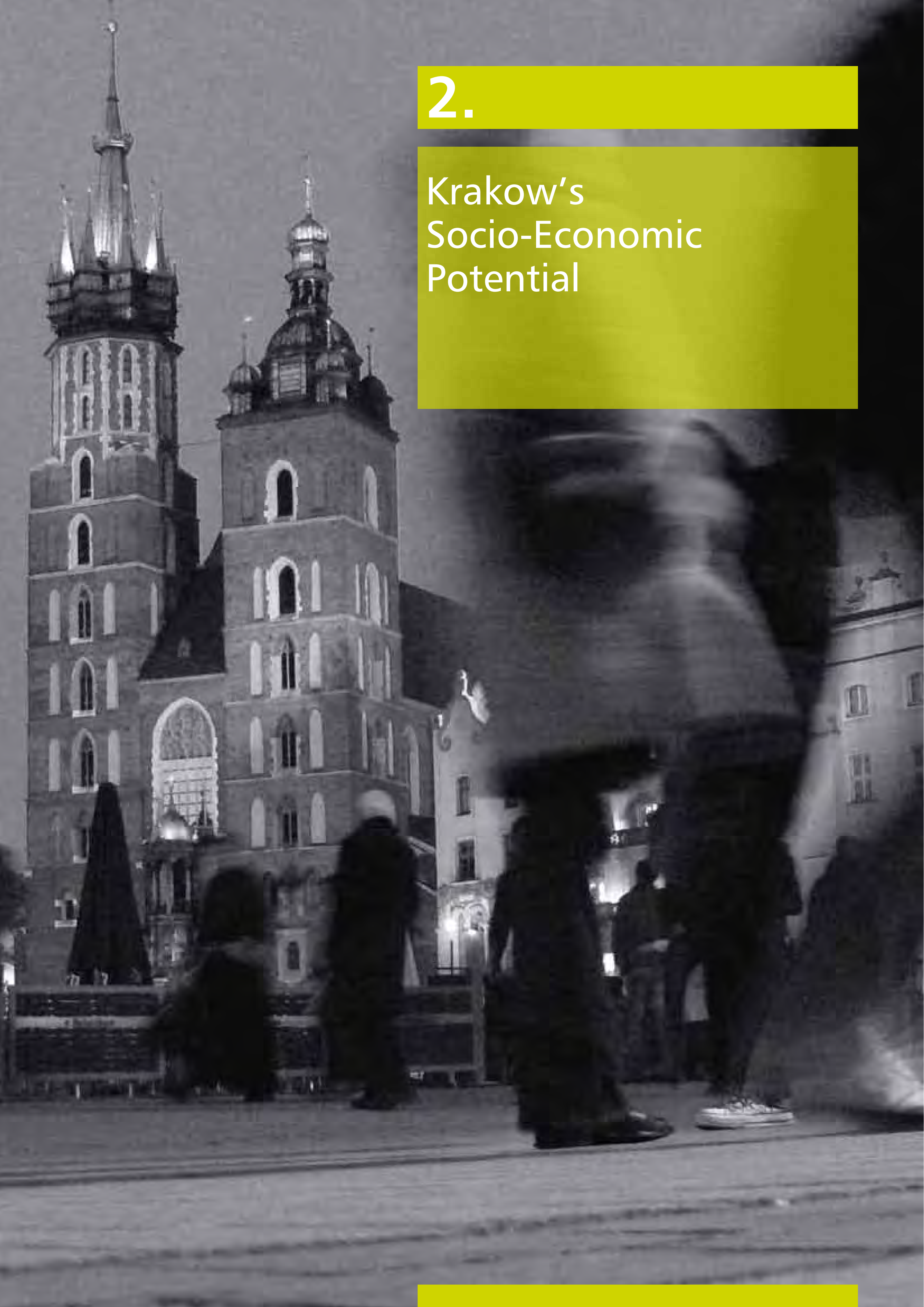
map
of the Metropolitan Area of Krakow

1. Introduction

It is our pleasure to deliver the latest edition of The Krakow Real Estate Market – Report 2007. The purpose of the publication is to introduce in a more detailed way the characteristics and peculiarities as well as changes in recorded trends on the Krakow real estate market including apartments, houses, land and commercial facilities (offices, hotels, retail space, warehouses).

The publication is a result of the joint cooperation of the Institute of Analysis, The Real Estate Monitor MRN.pl, Krakow Residential Service dominium.pl and Ober-Haus. We would like to express our appreciation to all institutions for their contributions to this report.

We hope that our report will be the primary source of information for companies and individuals interested in investments in Krakow and that they will refer to it before making their own analyses.



2.

Krakow's Socio-Economic Potential

Demographic Statistics

From 2000 onward, the number of the city residents was regularly declining by several hundred people, until Q3 2007 when this trend stopped.

At that time, a growing number of births and lower number of deaths were recorded. The birth rate in the period under discussion reached a positive value. A positive migration balance inside and outside the country was maintained. It should also be mentioned that Krakow's actual number of population is larger than in official statistics – according to estimates, some 40,000 residents have not been officially registered (source: *A. Zborowski, Demographic Forecast for Krakow in the Years 2003-2030*).

Until mid-2007, Krakow had the third largest population among Poland's big cities, after Warsaw and Łódź. In Q3 2007, however, Krakow outdistanced Łódź and became Poland's second ranking city in the number of residents. The Central Statistical Office has officially confirmed that as of September 30, 2007, Krakow had 756,529 residents, and Łódź 755,234

Table 1.
Selected Demographic Statistics in the Years 2004-2007

Specification	Year	Poland	Małopolskie Voivodship	Krakow
Population (in thousands)	2004	38,173.8	3,260.2	757.4
	2005	38,157.1	3,266.2	756.6
	2006	38,125.5	3,271.2	756.3
	30.06.2007	38,116.0	3,274.6	756,3
Population Density (per sq m)	2004	122	215	2,316
	2005	122	215	2,314
	2006	122	215	2,313
	30.06.2007	122	216	2,313
Birth Rate (per 1,000 Residents)	2004	-0.19	1.16	-0.82
	2005	-0.1	1.08	-0.8
	2006	0.1	1.22	-0.38
	30.06.2007	0.05	1.38	-0.86
Permanent Migration Balance (per 1,000 of population)	2004	-0.25	0.99	1.47
	2005	-0.34	0.98	1.97
	2006	-0.9	0.4	1.12
	30.06.2007	ca -0.55*	0.72	1.05

Source: Statistical Office in Krakow
*Estimated migration balance as at the end of 2007. The size with respect to Poland is not published every quarter.

Table 2.
Natural Migration in Krakow in the Years 2004-2007

Specification	2004	2005	2006	30.06.2007
Birth	6,140	6,436	6,640	3,294
Death	6,738	7,026	6,919	3,609
Birth Rate (difference between the number of births and deaths)	-598	-590	-279	-315
Marriages	3,357	3,557	3,892	1,535

Source: Statistical Office in Krakow

Table 3.
Population in Krakow in the Years 2004-2007

Specification	2004	2005	2006	30.06.2007
Krakow total	757,430	756,629	756,267	756,336
Female	402,977	402,561	402,528	402,645
Male	354,453	354,068	353,739	353,691
Registered for Permanent Residence (total)	733,107	733,964	734,510	734,579
Female	390,369	391,051	391,557	391,674
Male	342,738	342,913	342,953	342,905

Source: Statistical Office in Krakow

Table 4.
Population Structure in Krakow by Age and Sex in the Years 2005-2007

Specification	2005	2006	30.06.2007
Krakow Total	756,629	756,267	756,336
Female	402,561	402,528	402,645
Male	354,068	353,739	353,691
Economically Pre-productive Age	96,624	120,293	119,053
Female	46,984	58,682	58,075
Male	49,640	61,611	60,978
Economically Productive Age*	528,512	501,892	501,993
Female	266,171	252,320	251,943
Male	262,341	249,572	250,050
Economically Post-productive Age	131,493	134,082	135,290
Female	89,406	91,526	92,627
Male	42,087	42,556	42,663

Source: Statistical Office in Krakow
*Economically Productive Age – 18-64 for men and 18-60 for women

Table 5.
Actual Population in the Years 2004-2007 in Krakow and Wieliczka Poviat

	2005	2006	2007
City of Krakow	756,629	756,267	756,336
Krakow Poviat:			
Czernichów	12,802	12,870	12,883
Igołomia-Wawrzeńczyce	7,630	7,645	7,639
Iwanowice	8,254	8,311	8,356
Jerzmanowice-Przeginia	10,422	10,467	10,511
Kocmyrzów-Luborzyca	13,167	13,251	13,303
Krzeszowice	31,423	31,476	31,505
Liszki	15,594	15,682	15,724
Michałowice	7,655	7,824	7,933
Mogilany	11,040	11,322	11,389
Skała	9,604	9,657	9,632
Skawina	41,430	41,481	41,513
Słomniki	13,579	13,608	13,630
Sułoszowa	5,885	5,881	5,875
Świątniki Górne	8,596	8,661	8,676
Wielka Wieś	9,305	9,401	9,484
Zabierzów	22,257	22,559	22,661
Zielonki	15,640	15,848	15,968
Total:	244,283	245,944	246,682
Wieliczka Poviat:			
Biskupice	8,633	8,694	8,728
Gdów	16,253	16,422	16,517
Kłaj	9,816	9,889	9,908
Niepołomice	22,094	22,339	22,536
Wieliczka	47,992	48,599	48,909
Total:	104,788	105,943	106,598

Source: Statistical Office in Krakow

Table 6.
Migration Changes* in the Years 2004-2007 in Krakow and Wieliczka Poviat

	2005	2006	2007
City of Krakow	1,447	825	384
Krakow Poviat:			
Czernichów	39	89	29
Igołomia-Wawrzeńczyce	-1	21	-5
Iwanowice	46	78	37
Jerzmanowice-Przeginia	36	34	32
Kocmyrzów -Luborzyca	98	108	57
Krzeszowice	38	89	58
Liszki	95	67	36
Michałowice	142	158	93
Mogilany	230	225	30
Skała	69	72	-5
Skawina	-10	-57	10
Słomniki	39	34	33
Sułoszowa	-2	-15	4
Świątniki Górne	13	63	11
Wielka Wieś	110	88	73
Zabierzów	261	293	125
Zielonki	275	254	120
Wieliczka Poviat:			
Biskupice	-10	66	28
Gdów	104	98	63
Kłaj	35	60	9
Niepołomice	129	242	175
Wieliczka	677	518	254

Source: Statistical Office in Krakow
*Migration changes – difference between registration and change of permanent address

Tourism

The popularity of Krakow on the international arena is reflected in its high position on the lists of most frequently visited cities by European and international tourists.

According to the rankings in Travel&Leisure Monthly, Krakow is one of Europe's five most well-perceived cities. Approximately 90 percent of domestic tourists come to the capital of Małopolska.

Reportedly, some 8.06 million tourists visited Krakow in 2007 (according to press sources, this figure amounted to nine million). The number of visitors to Krakow in 2007 went up by 10 percent compared to 2006. The number of tourists from abroad increased markedly, rising from 0.7 million in 2003 to 2.4 million in 2006 and to over 2.5 million in 2007. 2004 recorded an increase by 219 percent of foreign visits compared to 2003. The number of those staying an average of three to five nights has been regularly increasing.

Since 2004, visitors to Krakow have more frequently decided to spend a night in the city; this applies to foreigners as well as to Polish tourists. Among hotel guests, foreign tourists are in the majority (in 2005 – 71 percent, in 2006 – 68 percent, in 2007 – 76 percent of foreign tourists decided to stay at hotels); they account for over 50 percent of hotel guests.

The development of the Balice airport is of major importance for the development of the tourist industry in Krakow. John Paul II International Airport Krakow – Balice exercises its direct influence on approximately 7.9 million residents living within a distance of 100 km from Krakow, which corresponds to about 90 minutes drive time to the airport. It is regarded as

Table 7.
Number of Visitors* to Krakow in the Years 2003-2007

	2003	2004	2005	2006	2007
Total Number of Visitors (thousand)	5,500	6,400	7,100	7,500	8,060
Polish Visitors (thousand)	4,800	4,860	4,900	5,100	5,560
Foreign Visitors (thousand)	700	1,540	2,200	2,400	2,500

Source: to 2006 – MOT, 2007 – MOT and the report authors' own estimates regarding tourist traffic commissioned by UMK (Krakow Municipality) – data for part of 2007
*Visitors – all persons coming for tourist purpose, the total of tourists and one-day visitors.

Table 8.
Number of Tourists* in Krakow in the Years 2003-2007

	2003	2004	2005	2006	2007
Total Number of Tourists (thousand)	3,500	5,500	5,500	6,200	6,800
Polish Visitors (thousand)	2,820	4,000	3,400	3,900	4,340
Foreign Visitors (thousand)	680	1,500	2,100	2,300	2,460
Share of Foreign Tourists	19.4%	27.3%	38.2%	37.1%	36.2%

Source: to 2006 – MOT, 2007 – MOT and the report authors' own estimates regarding tourist traffic commissioned by UMK (Krakow Municipality) – data for part of 2007
*The term "tourist" means a person coming to a given facility for tourist purposes staying at least one night.

reaching world standards according to the judgement of a prospective passenger market for airlines using specific airports. For the sake of comparison, similar areas of influence for other Polish airports with a given number of residents are as follows: Warsaw – 6.4 million, Poznań – 4.2 million, Wrocław – 3.5 million, Gdańsk – 3.0 million, Rzeszów – 2.6 million, Szczecin – 1.4 million.

The larger number of tourists in Krakow also results from the development of connections to Balice airport serviced, among others, by budget airlines.

In 2006, almost 2.37 million people arrived in Krakow by plane. In 2007, the number of passengers increased to over 3.07 million. Most of these people were tourists. It should be stressed that the Krakow airport handles the greatest number of passengers of all regional airports.

Krakow's values and attractiveness also have an influence on the development of business tourism. The city is a venue for conferences, seminars and training as well as exhibitions and fairs. The development of this sector is also stimulated by large-scale plans in the field of infrastructure, such as a Congress Centre to be built in an excellent location at Rondo Grunwaldzkie, currently under preparation by the city authorities.

Table 9.
Passenger Transport at the John Paul II International Airport Krakow

Year	Total Passenger Transport	International Transport
2006	2,367,257	2,163,847
2007	3,068,199	2,851,176

Source: City of Krakow Statistical Bulletin Q4 2007

Economy

Table 10.
Economic Entities in Terms of Legal Form

	December 31, 2006	December 31, 2007
Total	104,426	104,949
Thereof		
State Run Enterprise	28	14
Cooperatives	410	411
Commercial Companies total	10,883	11,789
Joint Stock	455	461
Limited Liability	9,098	9,756
Individuals (self-employed) Carrying out Business Activity	73,279	71,875

Source: City of Krakow Statistical Bulletin Q4 2007

Table 11.
Commercial Companies with a Share of Foreign Capital

	December 31, 2006	December 31, 2007
Total	10,883	11,789
Incl. Foreign Capital	2,088	2,099

Source: City of Krakow Statistical Bulletin Q4 2007

Table 12.
Unemployment

	December 31, 2006	December 31, 2007
Number of Unemployed	20,308	14,407
Unemployment Rate	5.5%	3.8%

Source: City of Krakow Statistical Bulletin Q4 2007

Housing

Detailed analyses of the housing market are available in further chapters of the report. Related statistics are included.

We should mention in this place the opinion of PricewaterhouseCoopers Consulting Company, naming the Krakow housing market as Poland's second after Warsaw.

Table 13.
Total Number of Apartments Delivered for Use in Krakow in the Years 2004-2007

	2004	2005	2006	2007
Number of Apartments	4,472	4,557	6,612	4,922
Total Floor Space in sq m	301,824	303,627	400,877	342,818
Average Space of Delivered Apartments	67.49	66.6	60.6	69.7

Source: Krakow Statistical Office

Table 13.
Apartments Delivered for Use in 2007

	Type of Ownership	Number of Delivered Apartments	Total Space (in sq m)	Average Floor Space of 1 Apartment (in sq m)
Individual	600	3,013	80,551	134.3
Council	89	260	3,915	44.0
for Sale or Lease	4,233	12,336	258,352	61.0
Total:	4,922	15,609	342,818	69.7

Source: Krakow Statistical Office

3.

Residential Market

3.1

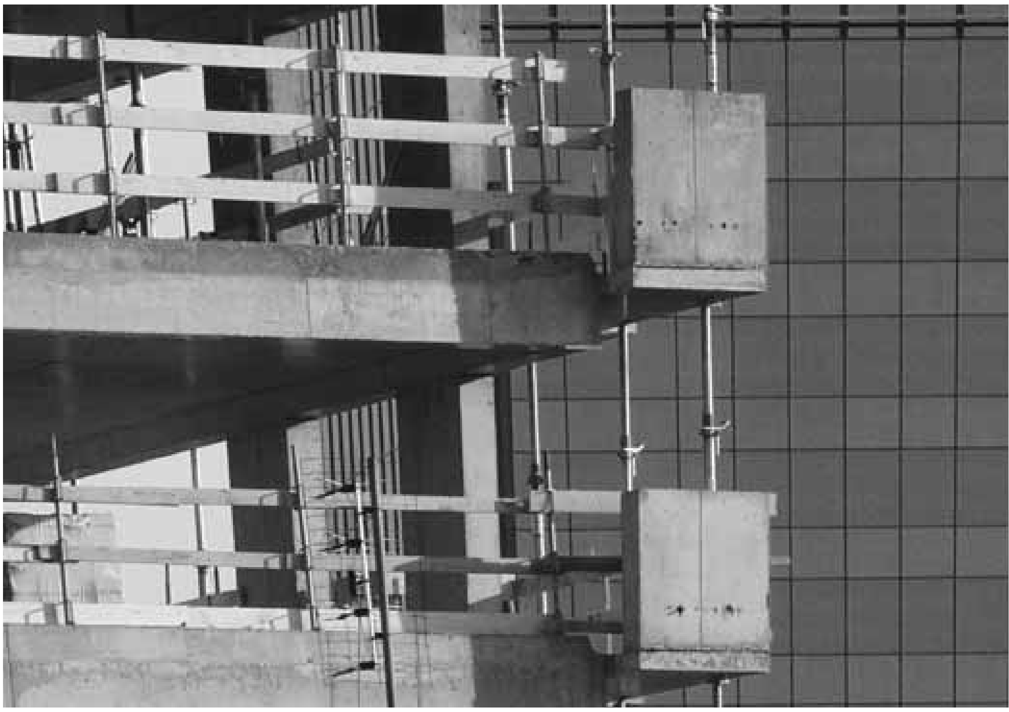
Residential construction – Primary Market

According to the preliminary figures supplied in the Statistical Bulletin of the City of Krakow for Q4 2007, the previous year in Krakow saw some 4,922 apartments delivered for use.

dominium.pl Krakowski Serwis Mieszkaniowy

If this figure had been recorded at the end of the year, it would have been the third-highest result in apartment construction since the beginning of the current decade. From 2002 onward, the number of built apartments has been systematically growing, reaching a record of 6,612 apartments in 2006.

The lower number of apartments in 2007 does not mean that developers' activity noted a slowdown. They delivered almost 250 apartments more than the year before and practically dominated housing construction in Krakow. In 2007, the number of apartments delivered by individual investors went slightly down (to 600). Published statistics did not record apartments built by housing cooperatives and TBS (Social Building Society). Among 2007 results are 89 council flats. According to estimates made by the Krakow municipality authorities, over 20,000 apartments were under construction in 2006-2007, which, given the dozen or so months needed to complete a project, provides an excellent forecast for 2008 activity. The increase in investments in progress shows an improvement in administrative procedures related to obtaining of building permits and the great interest of developers in the booming market.



The number of apartments to be delivered in the coming years is based on the demand of the preceding months. As far as the demand for apartments is concerned, the beginning of 2007 was a continuation of the previous excellent year when supply lagged behind demand, and the majority of offers were already sold prior to obtaining the building permit. Massive demand and meagre supply as well as growing costs of building have sent prices soaring. The first half of 2007 saw a steady inflow of new investors and investments, and an upsurge in offers. Higher prices have since subdued demand, rendering the market more stabilized. The second half of 2007 saw growth in the number of new projects, rising interest rates, declining interest from foreign investors (resulting, among other things, from uncertainty on world real estate markets) and Polish buyers holding out for the right moment. Prices in both well-regarded and previously ignored locations kept growing (specifically concerning new projects launched on the market). In less attractive locations, especially in areas with an abundance of offers, prices stopped growing and at the year's end a slight downward price adjustment was noted. The second half of the year, the period between closing and investment completion was systematically reduced, competition became stiffer, and discounted offers appeared on the market. These factors demonstrate the normalisation and transformation of the housing market into a consumer market.

2007 saw 180 investors carrying out intensive development activity in Krakow and neighbouring communes. To this group belonged a very small number of co-ops, development companies of local capital (the largest number), national capital (including publicly listed companies) and foreign capital, including Greek, Israeli, Portuguese, Italian and international. A substantial group of smaller investors starting up their business with small projects entered the market. It can be judged that the number of investors has doubled over the last years. A number of large housing complexes appeared on the market with several hundred apartments in each of them. These projects appeal both to the average buyer segment as well as more discriminating buyers with greater financial resources at their disposal. Changes in the market offer demonstrate the growing share of large companies with financial resources that enable the execution of projects on a greater scale. Despite strong competition on the market across the entire city, these larger projects may play a significant role in the shaping of an offer (such aspects as the way of financing, prices, standard) in some Krakow regions.

The analysis of the housing market presented below is based on investments presented by the Krakow Housing Service DOMINIUM.PL (http://www.dominium.pl). A substantial majority of Krakow investors are listing their investments on the portal.

A self-contained building was adopted for the purpose of this study, even if it is part of a greater housing complex. We should realise that the presented figures are only estimates and profile the market with a certain generality, resulting from the adopted research approach and sample size.

In December 2007, Podgórze, with almost half of all investments under construction, ranked first in the geographical investment chart. Krowodrze, with a 30 percent share, ranked second and Śródmieście, with 12 percent of investments, was in third position. The number of investments in Nowa Huta has increased over previous years with a share of almost 10 percent. After years of oblivion, the area is returning to the favour of investors and Nowa Huta is being developed with apartments of both an average standard as well as with higher quality projects. The location of developments in Nowa Huta is usually in the vicinity of park and recreational areas. The tables below (15 and 16) reflect the spatial structure of investments. They clearly show that almost half of all apartments in Podgórze have been sold.

Table 15.
Location of Housing Projects in Krakow in 2007

Borough	Investment Location (percent)
Krowodrza	32
Nowa Huta	8
Podgórze	48
Śródmieście	12

Source: DOMINIUM.PL

Single-family homes in Krakow are in scarcity. A few such projects are in progress in the west part of the city, in Bronowice, Zwierzyniec, in the vicinity of Kostrze and Pychowice and in the south part in Swoszowice and Opatkowice.

Table 16.
Location of Apartments Offered in Krakow in 2007

Borough	Investment Location (percent)
Krowodrza	29
Nowa Huta	10
Podgórze	47
Śródmieście	14

Source: DOMINIUM.PL

The process of investing in housing construction in the communes neighbouring Krakow is becoming more and more intensive. Apartments and houses near Krakow are an alternative to increasingly expensive apartments in the city, which, given the natural need to own a house by more well-off families, has resulted in migration movements. 2007 saw apartments offered in such localities near Krakow as Alwernia, Bochnia, Krzeszowice, Niepołomice, Zielonki, and Węgrzce. Single-family homes were mostly built in the communes located in the Krakow vicinity: Zielonki, Michałowice, Mogilany, Wielka Wieś, Niepołomice, Zabierzowo, Liszki and Wieliczka. Althought the offer includes small projects (a dozen or so terraced or semi-detached houses), larger investments are also available including several dozen or even over 100 houses.

Although at the end of 2007 around 16% of completed structures remained officially unoccupied, the majority of them were in the final phases of sale. This is reflected in the fact that such investments contained only five percent of all apartments for sale. The majority of projects and apartments have been scheduled for delivery in 2008, and for about 40 percent of apartments buyers will have to wait more than 12 months.

The average price for almost 40 percent of apartments offered in December 2007 was from PLN 5,000 – 7,000/sq m. A similar proportion of apartments was available at PLN 7,000 – 9,000/sq m. It is worth mentioning that in the middle of 2006, 1/3 of all sold apartments sold cost less than PLN 5,000/sq m.

Average prices of new apartments are considerably diversified depending on the location. In the cheapest locations the prices are almost three times lower than in the most expensive ones. If we compare not the average but the extreme values, the price would be four times higher. The cheapest apartments cost less than PLN 5,000/sq m and the most expensive over PLN 20,000/sq m. This evidences the fact that the location is a decisive factor in the price of real estate and even within the city borders the differences may amount to hundreds of thousands for an apartment of the same size.

In particular boroughs, there are locations both less and more attractive. The standard of the projects on offer and the apartments is also diversified. In such boroughs as Podgórze (Borough XIII) and Dębniki (Borough VIII), the differences per sq m between the most expensive and cheapest locations amount to 100 percent. Even in the same building, the prices depend on such elements as location of the apartment on a given floor, direction in which it faces, view from the window, and size and layout of the apartment. This is the reason that the quoted average prices can be used for the sake of comparison only, for determining the price dynamics.

In our analysis of the average prices in selected Krakow boroughs (December 2007), we can distinguish three price zones:

- The first zone includes the following boroughs: Bieńczyce, Mistrzejowice, Czyżyny (located within the Nowa Huta borders), Podgórze, Dębniki (excluding these regions' older parts situated on the Vistula), Bieżanów – Prokocim, Podgórze Duchackie, Łagiewniki (situated in Podgórze), Prądnik Biały (in Krowodrze) and Prądnik Czerwony (in Śródmieście). The average price in these boroughs per sq m ranges from PLN 6,300 to 7,500.
- The second zone comprises the following boroughs: Bronowice, Łobzów, Zwierzyniec (in Krowodrza), Grzegórzki (in Śródmieście) and, excluded from the previous group, Za-

Table 17.
Completion Dates of Investments on Offer

Completion Date	Investment Schedule (percent)
Ready (2007/2008)	16
2008	58
2009	22
2010 or later	4

Source: DOMINIUM.PL

Table 18.
Offered Apartments Delivery Dates

Completion Date	Investment Schedule (percent)
Ready (2007/2008)	5
2008	54
2009	36
2010 or later	5

Source: DOMINIUM.PL

Table 19.
New Apartment Price Structure (December 2007)

Price Range (gross prices per sq m)	Percentage Share (percent)
up to 5,000	3
5,000-7,000	39
7,000-9,000	34
9,000-12,000	20
over 12,000	4

Source: DOMINIUM.PL

Table 20.
Average Gross Prices per 1 sq m of New Apartments in Selected Boroughs (December 2007)

Boroughs	Located in the Boroughs Managed by Local Authorities	Average Gross Prices per sq m
Śródmieście		
Stare Miasto	I	18,500
Grzegórzki	II	9,740
Prądnik Czerwony	III	7,050
Krowodrza		
Prądnik Biały	IV	7,100
Łobzów	V	9,580
Bronowice	VI	8,580
Podgórze		
Dębniki	VIII	7,460
Łagiewniki	IX	6,950
Wola Duchacka	XI	6,570
Prokocim Bieżanów	XII	6,630
Płaszów	XIII	6,600
Stare Podgórze/Zabłocie	XIII	10,060
Nowa Huta		
Czyżyny	XIV	6,390
Mistrzejowice	XV	6,310
Bieńczyce	XVI	6,660

Source: DOMINIUM.PL

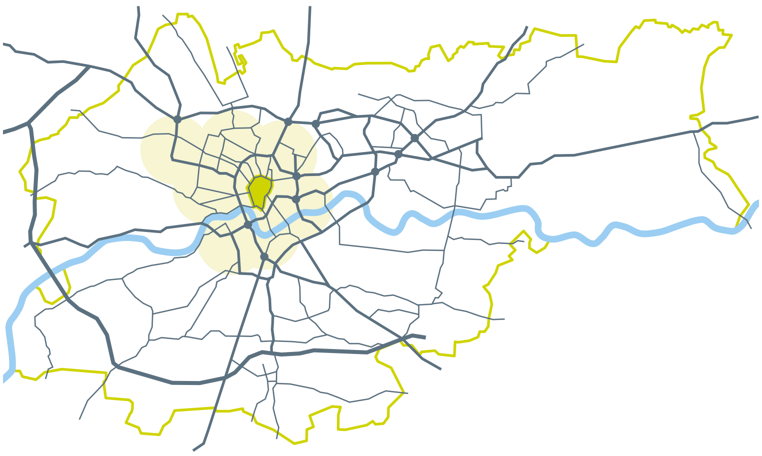
błocie, Stare Podgórze and Stare Dębniki (in Podgórze). The average price in these boroughs per sq m ranges from PLN 8,000 to 10,000/sq m.
- The third and most expensive zone covers only the Old Town, which, given its historic character and low availability for investments, differs considerably from other boroughs. The average price of an apartment sold in rejuvenated, historic buildings is over PLN 18,000/sq m. However, the price differences within the borough are significant and average prices, depending on the project, range from PLN 12,000 to almost 20,000/sq m.

The changes of prices in 12 boroughs have been used in order to determine the dynamics of prices on the primary market in 2007 (Mistrzejowice, Bieńczyce, Prądnik Czerwony, Bieżanów – Prokocim, Dębniki, Prądnik Biały, Łagiewniki, Podgórze Duchackie, Bronowice, Grzegórzki, Łobzów, Stare Miasto). For these boroughs comparative data are available. In 2007, the average change of prices in these boroughs amounted to 10.2 percent, although considerable differences were noted between specific boroughs. In the majority of the analysed boroughs, the changes accounted for a few to a dozen or so percent, and in Bieńczyce, Prądnik Czerwony and the Old Town, where the greatest changes were noted, average prices went up by over 20 percent.

In about 40 percent of investments, buyers could count on a stable price, avoiding indexation. Some investors preconditioned the fixing of prices by demanding a substantial portion or full payment of the apartment price in the first instalment, or at a level above inflation. In the majority of investments, indexation was dependent on the GUS inflation rate. In most cases indexation was performed every quarter. Payments for the apartment are made in instalments. Different kinds of payment systems are used, depending on the company and progress of the investment. In about half of the investments, the first instalment was maximum 20 percent of the apartment value and in over 90 percent it did not exceed 30 percent of the value.

In most cases, instalments are paid monthly or quarterly. In a dozen or so percent of investments the payment depends on the progress of construction works. In the remaining cases, investors offer the option of adjusting the payment system to the needs of individual buyers. When taking into account rising prices, the payment system is one of the competitive elements among investors. Programmes with a primary instalment of 5-10 percent of the apartment value, with the balance to be paid upon completion are available on the market. Since most of the apartments are financed by bank loans, development companies willingly

Map 1.
Division of the city into apartaments price zones (as at December 2007)



PLN 6 300 – 7 500 sq m
PLN 8 000 – 10 000 sq m
PLN 12 000 – 20 000 sq m

cooperate with banks and credit consultants to make apartment purchase easier for the buyer.

As far as the standard of apartments is concerned, among the available projects are mainly apartments using the so-called developer's standard (core and shell, to be finished by the buyer). A dozen or so percent are apartment buildings with a higher standard, unique location, additional functions (fitness, recreation, swimming pool, reception) or unique architecture and interior arrangement. The largest number of apartment buildings is being constructed in the Old Town, in Krowodrza, Grzegórzki and Podgórze – on the areas neighbouring the Vistula from Dębnik to Zabłocie.

Most of the apartments on the market are 40-50 sq m in size, representing 21 percent of the total; slightly bigger ones of 50-60 sq m – 26 percent, which in total accounts for almost half of the market; smaller apartments of 30-40 sq m constitute 14 percent of the market share. Most of the offered apartments have two rooms (47 percent). Three-room apartments rank second in number (29 percent) and single-room apartments are in third place (17 percent).

In the investments delivered by Krakow developers at the end of 2007, most of the buildings have 3 and 4 floors (17 and 26 percent, respectively). Half of all offers have buildings with more than 4 floors and about 8 percent are skyscrapers with 10 and more floors. About 55 percent of all building facilities will have lifts.

Analysing the volume of housing investments we may notice that buildings with up to 50 apartments will be in majority. They account for about 60 percent of the offer. About 35 percent of structures have 50 to 100 apartments. The remaining buildings, belonging to the biggest facilities, have over 100 apartments.

The option to park ones car close to home is an important factor from the point of view of the buyer. Parking places and closed garage boxes are usually available at ground level. Underground garages are positively received by buyers. They provide parking places and enable entry to apartments without the need to go outside, and at the same time free up space outside the building, which provides the possibility of landscaping or arranging green areas. Depending on the sale strategy and revenue targets structure adopted by a developer, the price per parking place is in proportion to the price of an apartment (particularly with regard to expensive locations, where the price of the garage space is relatively high) or at a lower level that allows it to be sold fast. In 2007, gross prices for parking spaces were at the level of PLN 25,000-35,000 per place. The closed box in the garage rocketed up by PLN 8,000-10,000, on average.

Table 21.
The Number of Floors in Buildings

Number of Floors	Share in the Offer Structure (percent)
2	7%
3-4	43%
5-6	25%
7-9	17%
10 and more	8%

Source: DOMINIUM.PL

To the majority of new investments offered in 2007 in Krakow, heat is supplied by the borough heating network. The second most popular solution is local heating, usually a gas-fired boiler plant. About a dozen or so percent of apartments are heated with the use of dual--function gas boilers. From the point of view of users, this system is cheaper because there is are no fixed charges collected regardless of consumption.

Standard equipment in newly delivered buildings includes a door intercom system, telephone and internet connection, and anti-theft or reinforced doors. Facilities upgrades also include video-intercom, air conditioning in selected apartments, and a Master Key System.

Responding to buyers' expectations, investors are choosing traditional technology in their designs. In the offers predominate buildings made of hollow brick units and silicate masonry units with Styrofoam thermal insulation or Mineral Wool. Cellular concrete is less common.
We can observe the growing importance of the development of the building's immediate surrounding area, and of the security of prospective inhabitants. About 40 percent of investments will have playgrounds for children. Most of the investments have access roads covered with cobblestones and almost 70 percent of the buildings have fences (this group also includes buildings that are fenced within the housing estate). Facilities with upgraded standards also have monitoring, alarm systems and 24 h security supervision. Elements of landscaping (such as water cascades, fitness facilities or swimming pools) as part of bigger and more expensive projects are also becoming standard.

Conclusions / Trends

- The cost of over 70 percent of apartments on offer ranges from PLN 5,000-9,000/sq m.
- Development companies' share in housing construction in Krakow has been soaring; many new development companies are entering the market.
- The second half of the year saw prices on the primary market stabilize.
- A great number of new investments have appeared on the market; supply of apartments has gone up with almost 5,000 new apartments delivered for use.
- Large housing projects with several hundred apartments have appeared on the market.
- Almost half of all projects and apartments offered are located in Podgórze.
- Developers' business activity in the vicinity of Krakow has been expanding.
- Over half of the apartments offered in 2007 will be delivered for use in 2008.
- The average prices in the cheapest boroughs (e.g. Mistrzejowice, Czyżyny) are three times lower than the average price in the Old Town.

3.2

Secondary Residential Market – Offer Prices

The average offer price of apartments on the secondary market in Krakow in December 2007 ranged from PLN 5,900 (in Nowa Huta) to PLN 12,100 per sq m (in Stare Miasto).

Average prices up to PLN 8,000 per sq m were recorded in the following districts:
Nowa Huta (XVIII), Grębałów (XVII), Bieńczyce (XVI), Mistrzejowice (XV), Czyżyny (XIV), Prokocim-Bieżanów (XII), Wola Duchacka (XI), Swoszowice (X), Łagiewniki (IX), Dębniki (VIII), Prądnik Biały (IV), Prądnik Czerwony (III).

Average prices ranging from PLN 8,000-10,000 per sq m were recorded in the following districts:
Podgórze (XIII), Bronowice (VI), Krowodrza (V), Grzegórzki (II).

Average prices ranging from PLN 10,000-12,000 per sq m were recorded in the following districts:
Stare Miasto (I), Zwierzyniec – Wola Justowska (VII).

Offer prices on the secondary market in 2007 went up in all districts. Prices did not change evenly. Depending on the district, the dynamics of changes ranged from 2 to 23 percent. The average change in prices recorded in the 15 districts for which comparative data were available came out to 10.13 percent. Nearly identical dynamics were noted at the same time on the primary market (although the price change structures in particular districts were different). The offer price upsurge on the secondary market was mainly recorded in the first half of the year. The second half saw price stabilization, and at the end of the year they began falling in less attractive locations.

Tabela 22.
Average Offer Prices of Apartments on the Secondary Market (January/December 2007)

District no.	January 2007 Price per sq m (PLN)	December 2007 Price per sq m (PLN)	Change (percent)
Stare Miasto (I)	10,968	12,114	10
Grzegórzki (II)	8,218	8,583	4
Prądnik Czerwony (III)	7,065	7,771	10
Prądnik Biały (IV)	7,442	7,554	2
Krowodrza (V)	8,104	8,998	11
Bronowice (VI)	7,375	8,511	15
Zwierzyniec -Wola Justowska (VII)	8,661	10,352	20
Dębniki (VIII)	7,636	7,905	4
Łagiewniki (IX)	6,951	7,101	2
Swoszowice (X)	–	6,828	–
Wola Duchacka (XI)	6,202	6,627	7
Prokocim-Bieżanów (XII)	6,137	6,524	6
Podgórze (XIII)	7,269	8,944	23
Czyżyny (XIV)	5,777	6,642	15
Mistrzejowice (XV)	5,593	6,436	15
Bieńczyce (XVI)	–	6,470	–
Grębałów (XVII)	–	6,469	–
Nowa Huta (XVIII)	5,449	5,904	8
Average for Districts			10.13

Source: DOMINIUM.PL

Comparison of the average offer prices on the secondary and primary markets shows an interesting interdependence. In districts where prices have hit a record, the average offer prices on the secondary market are lower than those on the primary market from 6 percent (in Łobzów) to 12 percent (in Grzegórzki) to almost 35 percent (in Old Town). The reverse situation exists in those districts in which the average offer prices are lower. In such districts, the average offer prices on the secondary market are either slightly lower or even a few percent higher than on the primary market.

It seems that the standard of apartments on offer can explain this phenomenon. In Old Town, Grzegórzki or Łobzów new projects offer a prime standard of apartments and buildings, often with luxurious finishing of common areas, air conditioning, and additional functions such as reception, fitness etc. In these districts, considering the age of the developments, apartments on the secondary market often require great outlays for refurbishment, which is reflected in prices.

Cheaper districts are located farther away from the historic centre. Apartments are situated in buildings that were constructed over the last few years; therefore, their standard does not differ substantially from new projects. New apartments are offered in the developer's standard, which involves additional costs for the buyer, such as for fixtures and equipment. This explains why prices in these districts are higher on the secondary market than on the primary one. Furthermore, as a rule, a buyer must wait a dozen or so months to take possession of the new apartment (during such periods the price of the investment under construction is subject to indexation) and those that sell second hand apartments quote a price subject to further negotiations. Actual transaction prices on the secondary market were therefore lower by about 5-8 percent (*source: Gazeta Wyborcza, daily, issue September 14, 2007*). The differences in prices between new and previously-built apartments may change in the future when the average waiting period for new apartments will be reduced to a few months.

Table 23.
Comparison of the Average Offer Prices of Apartments on the Secondary and Primary Markets in Selected Districts (December 2007).

	Primary Market (PLN)	Secondary Market (PLN)	Difference
Śródmieście			
Stare Miasto	18,500	12,114	-34.52 %
Grzegórzki	9,740	8,583	-11.88 %
Prądnik Czerwony	7,050	7,771	10.23 %
Krowodrza			
Prądnik Biały	7,100	7,554	6.39 %
Łobzów	9,580	8,998	-6.08 %
Bronowice	8,580	8,511	-0.8 %
Podgórze			
Dębniki	7,460	7,905	5.97 %
Łagiewniki	6,950	7,101	2.17 %
Wola Duchacka	6,570	6,627	0.87 %
Prokocim Bieżanów	6,630	6,524	-1.6 %
Nowa Huta			
Czyżyny	6,390	6,642	3.94 %
Mistrzejowice	6,310	6,436	2 %
Bieńczyce	6,660	6,470	-2.85 %

Source: DOMINIUM.PL

Conclusions / Trends

- In the cheapest district (Mistrzejowice), the average prices of apartments on the secondary market are lower by half than those in Old Town.
- The average price dynamics on the primary and secondary markets in 2007 were similar and prices jumped by about 10 percent.
- The second half of the year saw price stabilisation on the secondary market.
- In some regions of Krakow, the average offer prices on the secondary market are the same or slightly higher than the prices in new residential facilities.

3.3

Secondary Residential Market – Transaction Prices

As mentioned in the previous chapter, according to estimates, actual transaction prices on the secondary market have been lower than the offer prices by about 5-8 percent

The diversification of sale prices by particular region of Krakow is profiled below in an analysis encompassing all apartment sale transactions on the secondary residential market in 2007 (excluding co-op apartments).

Over the last four years, the greatest number of transactions has been concluded in Krowodrza and Podgórze. Taking into consideration the number and value of these transactions, we can fashion a measurable attractiveness evaluation for particular areas of Krakow, among which Krowodrza, Śródmieście and Podgórze have enjoyed the greatest interest over the last four years. The largest average prices in 2003-2007 were recorded in Śródmieście and Krowodrza and the lowest in Nowa Huta. Analysis of the transactions on the residential market from 2003 to 2007 shows that the average price per sq m of an apartment in all Krakow boroughs has been systematically rising, except in Śródmieście, where 2007 saw a drop in the average price. Over the last three years, two-room apartments of approx. 50 sq m located near the downtown (in Śródmieście, as well as Krowodrza and Podgórze) in small brick buildings have enjoyed the greatest interest. In high demand are well-situated and well-maintained apartments in tenements or new apartment buildings located in the Krakow downtown, purchased mainly by foreign investors interested in monetary investments.

Table 24.
Comparison of the Number of Transactions on the Secondary Residential Market from 2003 to 2007

	2003	2004	2005	2006	2007
Śródmieście	802	709	712	940	800
Krowodrza	843	571	563	1,010	920
Podgórze	802	623	510	1,080	940
Nowa Huta	591	452	391	780	730

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

Table 25.
Comparison of Turnover and Number of Transactions on the Residential Market from 2003 to 2007 (in Millions of PLN)

	2003	2004	2005	2006	2007
Śródmieście	138.34	140.32	181.66	298.01	341.10
Krowodrza	130.88	102.78	113.05	282.73	337.25
Podgórze	103.44	83.5	83.82	236.43	274.72
Nowa Huta	47.57	41.95	40.43	129.10	177.51

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

Borough I – the Old Town in Śródmieście is the most expensive borough in Krakow. A small number of properties for sale are available in this location. In 2005, a two-room apartment in a property adjacent Rynek Główny (Main Market Square) in Krakow sold for a record of PLN 23,222/sq m. Prices in the regions of Kleparz and Kazimierz, a fashionable entertainment and tourist centre nowadays, are slightly lower. Apartments in tenements are usually spacious; rooms are big and bright, which, apart form the location, is an additional attraction. Prices in two other boroughs in Śródmieście are lower (the average price per sq m in Grzegórzka housing estate is about PLN 8,500/sq m, and in Prądnik Czerwony about PLN 7,500/sq m).

In Krowodrza, the most attractive locations belong to the following boroughs: V – Krowodrza, VI – Bronowice and VII – Zwierzyniec. The highest prices on the residential market are paid for apartments in tenements from the interwar period situated in the region between Kościuszki and Wrocławska streets. The western part of borough V and eastern part of borough VI are typical multi-family, multi-floor developments (Widok Housing Estate and other housing estates built in the 70s and 80s, the so-called prefabricated tower blocks). Presently, due to the inadequate supply of apartments on the housing market, the prices of apartments in these buildings are high; in a dozen or so years they will rise, but not as dynamically as in structures built with the use of traditional technologies.

In Podgórze, the old part of this region enjoys the greatest interest (Borough XIII), with Dębniki (Borough VIII) mainly filled by tenements, constituting the remains of what were separate, small towns. Apartments in older, squalid properties, especially those that are located on the Vistula bank, are very expensive. Among dynamically developing regions are Pychowice, Ruczaj, Kliny, Zakrzówek and Kobierzyn with the new III Campus of the Jagiellonian University now under construction, as well as business facilities belonging to the advanced technology sector (such as Motorola). A lot of apartments built after 1990 are available on the residential market. Prokocim, Bieżanów, Piaski Nowe, Kurdwanów, Wola Duchacka, Kozłówek, Piaski, and Płaszów are old housing estates from the 70s and 80s of the 20th century built from prefabricated elements. Average prices of these apartments are lower, with a price per sq m of PLN 5,500.

The most expensive apartments in Nowa Huta are located in Czyżyny, which borders Śródmieście and offers excellent public transit connections to the downtown. The cheapest apartments in Nowa Huta, and in all of Krakow, are located in the former council and company buildings situated in the housing estates in the oldest part of Nowa Huta.

Table 26.
Prices per sq m of Apartments on the Residential Market from 2003 to 2007 (in PLN)

	2003	2004	2005	2006	2007
Śródmieście	2,967	3,296	4,193	5,813	7,881
Krowodrza	2,830	3,118	3,681	5,474	7,508
Podgórze	2,517	2,665	3,196	4,430	6,280
Nowa Huta	1,862	2,165	2,469	3,904	5,695

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

Conclusions / Trends:

- From 2003 onward, average prices regardless of the size or location of apartment have been going up on the secondary residential market in Krakow. Śródmieście is an exception with its average price per sq m in 2007 going slightly down.
- 2007 saw further diversification of prices in particular Krakow boroughs.
- The most significant influences on the diversification of prices in Krakow are those of location, surrounding, finishing standard, technical condition of the building and apartment, and situation of an apartment in the building and the floor.
- Among the most expensive locations within Krakow's borders are: Old Town, Zwierzyniec, Grzegórzki, Prądnik Czerwony, Prądnik Biały, Bronowice, Stare Podgórze and Dębniki.
- Factors such as Poland's accession to the European Union, Krakow – becoming a city en vogue, people born during the baby boom in the first half of the 80s entering the market, the large number of those seeking residence in the city (mainly students), easily accessible mortgage products, intensive inflow of foreigners, and economic growth generating mass purchasing power in Poland have sent apartment prices in Krakow soaring over the last 3 years.

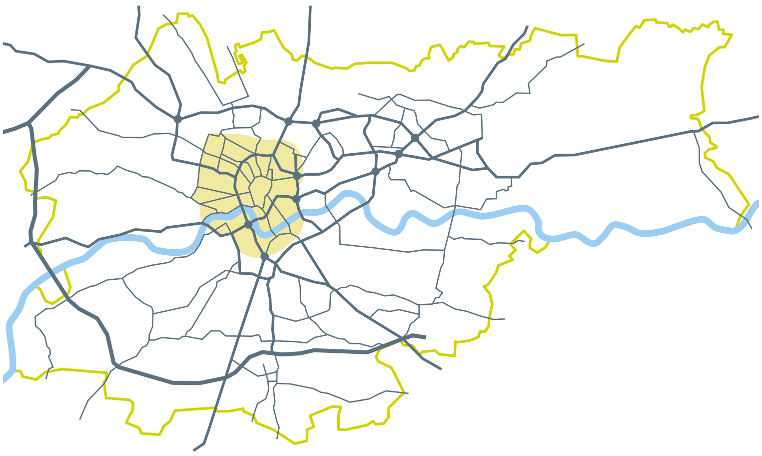
3.4

Tenements and Historic Premises

The city of Krakow, so attractive for tourists due to its well-preserved historic urban layout, has a great number of tenements which are private property.

The term "tenements" usually implies pre-war, often historic multi-family buildings, sometimes with commercial premises (retail, services, offices) on the ground floor; in most cases in a densely built-up area, made of bricks and often holding both rental flats and council flats. They are the dominant form of development in the historical centre of Krakow and also in old Podgórze and Krowodrza. A peculiarity of the tenement market is limited supply, as the number of pre-war buildings by definition cannot increase, and new sales recorded often result from normalization of the ownership title as regulated by law. The most fashionable streets with historic pre-war developments are in Śródmieście in the Planty region. Among them are Floriańska, Rynek Główny (Main Market Square), Grodzka and Szewska streets and, further on, the pre-war Kazimierz borough (along Krakowska, Starowiślna and Dietla streets). To this group also belong the areas around Zwierzyniecka, Karmelicka, Długa, Lubicz, Grzegórzecka, and Aleja Trzech Wieszczów streets. Salwator near Na Stawach Square, Kościuszki Street and the area around Lea, Królewska, Mazowiecka and Wrocławska streets are the most attractive places in Krowodrza. Old Podgórze mainly comprises Kalwaryjska and Limanowskiego streets and the intersecting streets. However, the areas just beyond these streets, on Wzgórze Lasota (Zamojskiego, Parkowa) and in the Dębniki region have been becoming more and more popular recently.

Map 2.
Pre-war Urban Development Area



As in previous years, 2007 also saw strong upward trends in real estate prices. The primary reasons for this buying fever are: Poland's established position in the European Union and a growing stream of foreign capital, inexpensive mortgage products, increasing purchasing power of Polish investors, economic growth and growing optimism of Polish investors with regard to the real estate market, the strong brand and established position of the city as well as infrastructural investments; especially overall modernisation of the communication system and Balice Airport.

At the end of 2007 and the beginning of 2008, over 100 properties in Krakow were registered for sale for a total amount of over PLN 800 million. The most expensive offer located in Śródmieście, has been offered at PLN 61 million, in Podgórze for PLN 15 million and in Krowodrza for PLN 7 million.

As we may easily notice, buyers have the widest choice in Śródmieście (60 percent of offers). The remaining 40 percent are in Podgórze and Krowodrza. This can be explained by the range of pre-war and historic residential development in particular boroughs.

The number of Krakow tenements subject to transactions has been growing year in year out. The greatest number of transactions has been registered in Śródmieście, recording also the greatest dynamics in turnover. Currently, 2/3 of transactions in Krakow are concluded in this borough. Similar dynamics have been noted in Krowodrza, which is perceived as an attractive location for luxury developments.

The years 2006-2007 recorded a real boom on the tenement market. In 2006, investors spent almost PLN 500 million on real estate – 180 percent more than in 2005. In 2007, sales reached about PLN 600 million; that is, an increase of over 20 percent when compared to 2006. Sellers of properties can easily find buyers. This can be explained by the insufficient supply of such properties lagging behind demand, with Śródmieście being the largest market in this real estate segment. 2007 saw investments in that region valued at over PLN 540 million. This accounts for 80 percent of the entire market turnover in Krakow. The limited supply of these kinds of locations sets a natural barrier for development of the tenement market.

Apart from record turnover on the market in 2007, prices also reached an unprecedented level. Buyers were ready to pay over PLN 20,000 per sq m of floor space in a tenement located in the historic centre of the city and PLN 10,000 in Krowodrza and Podgórze. The most expensive property hit a record of over PLN 37 million (in 2006 – PLN 22 million, in 2005 – PLN 10 million and in 2004 – PLN 5 million). 2005 recorded only nine property sa-

Chart 1.
The Number of Tenements for Sale at the End of 2007

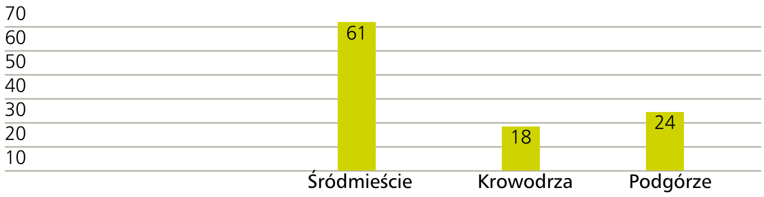
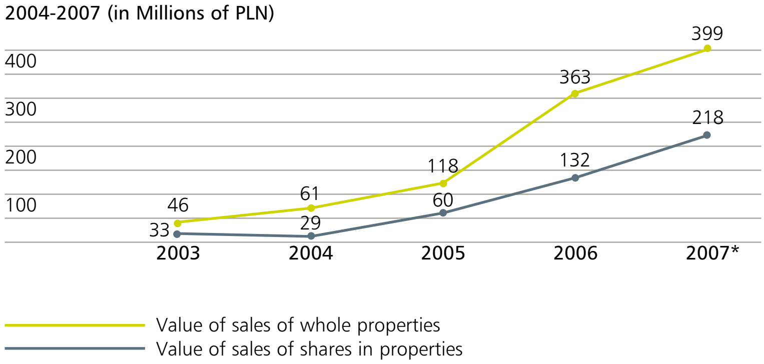


Table 27.
The Number of Transactions on the Tenement Market in the Years 2003-2007

Year	Number of Transactions Involving the Sale of the Whole Property	Number of Transactions Involving the Shares in the Properties	Transaction Totals per Year	Year to Year Growth (Previous Year = 100 percent)
2003	26	116	142	
2004	42	105	147	104%
2005	62	180	242	165%
2006	97	237	334	138%
2007*	69	264	333	100%

Source: Institute of Analysis, The Real Estate Market Monitor – mrn.pl
* value estimates based on figures from Q1 & Q2 2007

Chart 2.
The Value of Sales of Whole Properties and Shares in Properties in the Years 2004-2007 (in Millions of PLN)



* value estimates based on figures from Q1 2007

les for prices exceeding PLN 5 million, 2006 saw 20 transactions and 2007 even more. In 2007, three properties out of 32 were sold below PLN one million, whereas in 2005 this value was exceeded only by every second transaction. The prices of properties over the last 5 years have shown an upward trend of growing dynamics. Average prices during that period went up by 270 percent. 2007 saw a record increase of property values and the average price per sq m of floor space in Śródmieście was near PLN 8,000. Similar trends were recorded in Krowodrza and Podgórze.

Transactions from the second half of 2007 indicate price stability at the current level.

The last three years have attracted great interest from foreign investors in the Krakow market. Almost half of the market turnover is financed by foreign capital.

After Poland’s accession to the European Union in 2004, Krakow became a European market, or even a world market, judging by the structure of investment capital which has flowed in. This can be best observed on the tenement market, in which growing involvement is being shown by residents of the European Union as well as other countries.

Chart 3.
Property Price Trend in Śródmieście in the Years 2003-2007 (PLN/sq m)

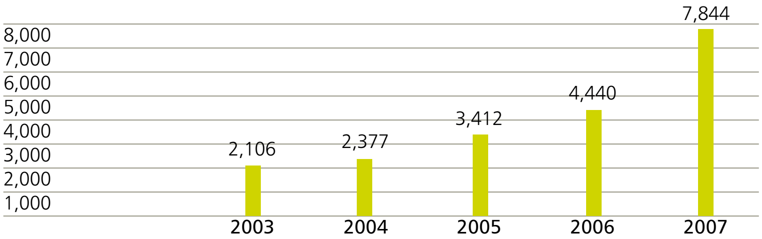
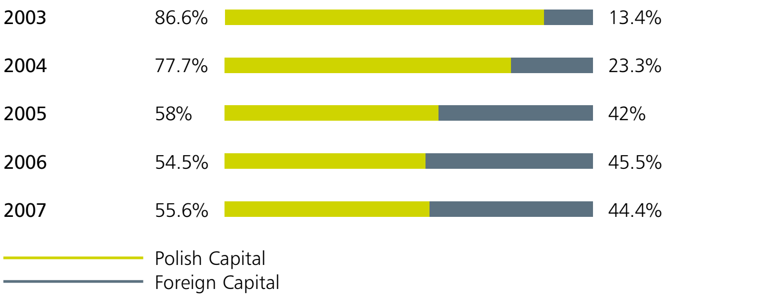


Chart 4.
The Structure of Investment Capital on the Property Market in the Years 2003-2007



Basic Investment Strategies Characteristic for the Rental Tenement Market:

- Investment in cash flows – a new owner becomes a landlord rationally investing in the real estate trying to maximise his tenancy profits. This is the way properties are purchased in the main shopping precincts such as Floriańska, Grodzka, Szewska, Rynek Główny.

- Developer investment – a new owner aims at executing the development, expansion, and conversion of unused space in order to make the best usage of the real estate’s potential and increase proceeds from its resale. Buyers assess the property development possibilities before making a decision on the purchase. Investment potential has significant influence on prices in this real estate market. It sometimes also occurs that the demolition of the old core and shell of the building and construction of a new, modern apartment building will yield the most profitable investment. We should stress that there are significant restrictions imposed by the city’s bureau of historical preservation on developments in the downtown.

- Business investment – the property is renovated and converted for new use, such as hotel, bed and breakfast, office space, company office, bank, school, medical centre and others. Over the last two years, considerable interest from the hospitality industry in downtown properties has been noted. Investors are converting the downtown tenements into small luxurious hotels or hostels.

- Another investment purpose is termed mixed-use. Usually, the new owner divides part of the real estate and resells it in order to get a return on investment and the remaining, most profitable part, retains to let.

Conclusions / Trends

- The tenement market will remain attractive for investors seeking space in the best city locations.

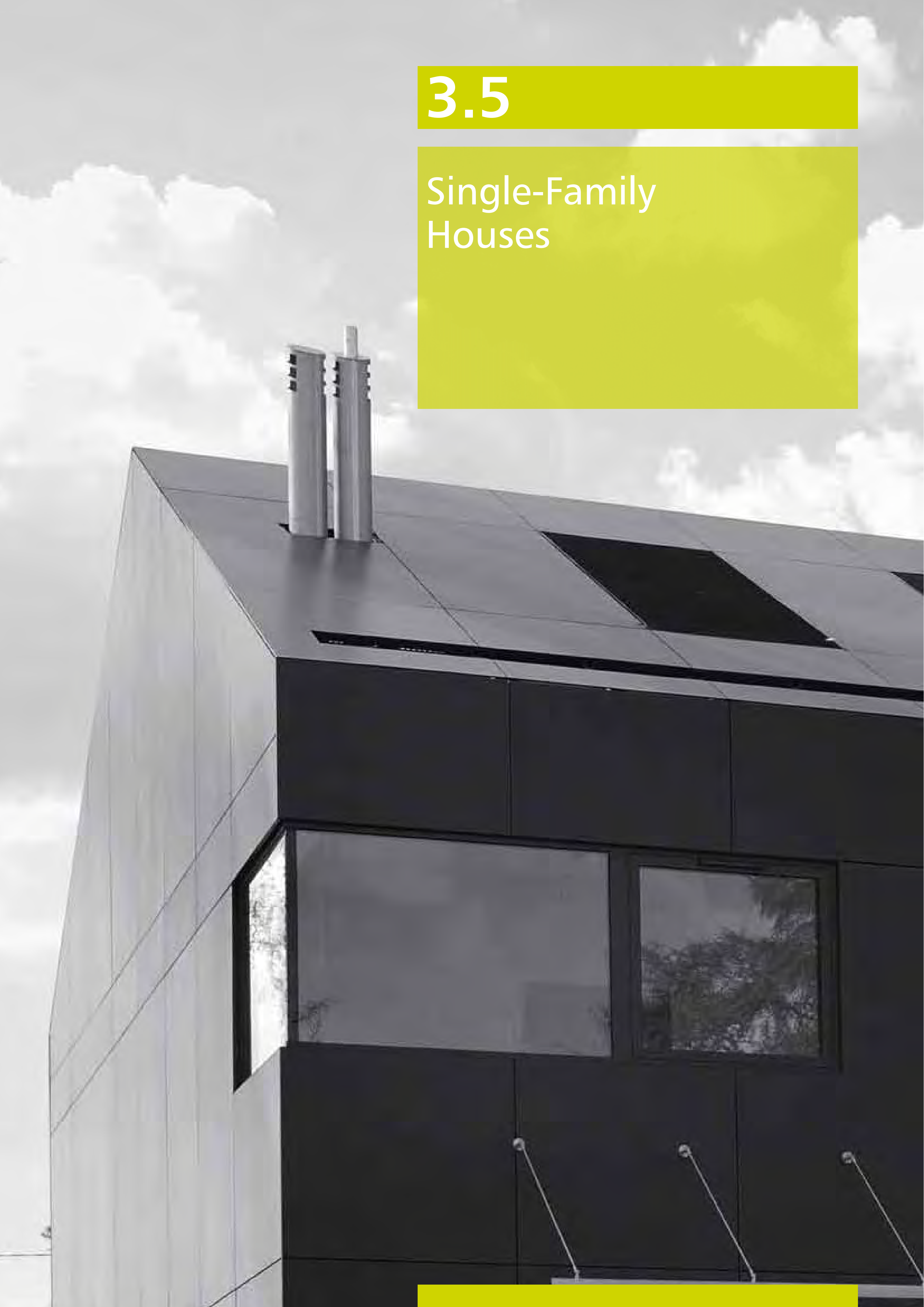
- The supply of tenements for sale is lagging behind demand. According to forecasts, prices in the near future are likely to remain high.

- In recent periods, the market has been stimulated by investors from the hospitality industry that want to situate their facilities in fashionable Krakow (hotels/boutiques, guest houses, hostels).

- Average tenement prices shot up by 270 percent over the last five years to hit a record in 2007 of up to PLN 8,000 per sq m of floor space in Śródmieście. Similar trends were noted in Krowodrze and Podgórze.

3.5

Single-Family Houses



3.5.1

Single-Family Houses in Krakow

For the purpose of this study, the authors have adopted the method of analysis of notary deeds as the most accurate manner of measurement. Given the fact that such documents are made available only after a long delay, the analysis covers only Q1 2007. However, these data allow to present the situation on the market including the changes in trends, which affected the whole of the the previous year indicated.

I. Primary Market

At the end of 2007 and the beginning of 2008, developers offered 148 single-family properties on the primary market in Krakow. Some 60 percent of these houses were built as terraced houses according to the core & shell principle, with finishing works to be done individually by owners. The houses were delivered without floors, sanitary fixtures, or interior doors. Apart from the terraced houses offered within the city borders, one may also find single homes for sale, built by small companies.

Due to scarcity of supply of this type of property, locations in various parts of Krakow, and significant differences in floor space between particular buildings, it is difficult to draw general conclusions regarding price trends. Generally, in determining prices per sq m, developers calculate their offers to match them to an average price per sq m in a similar location. The buyer gets a small garden and all the advantages of having his own home.

Tabela 28.
Number of Single-Family House Transactions in Krakow in the Years 2003-2007 (Q1 2007)

	2003	2004	2005	2006	Q1 2007
Śródmieście	24	33	25	22	7
Krowodrza	108	105	115	139	58
Podgórze	191	191	196	246	125
Nowa Huta	25	30	31	27	13
Razem:	348	359	367	434	203

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

The most expensive project in the above period was delivered in Pod Strzechą Street in Bronowice Małe, northwest of Krakow (Bronowice Borough). The developer is offering terraced houses for PLN 1.7 million (PLN 11,000/sq m). Another small residential estate was built in Stelmachów Street, Prądnik Biały Borough with a small terraced house available for PLN 720,000 (PLN 6,600/sq m), which, given the floor space of its double garage, makes it effectively PLN 4,400/sq m.

Other single-family properties offered for sale are located in Podgórze Borough (eight offers), and one in Nowa Huta. Prices per sq. m range from PLN 5,000 to 6,000, except for the most expensive offer in Tyniec in Krasowa Street, where a price of PLN 7,900/sq m has been recorded.
To buy a house situated within the city borders, one must be ready to spend PLN 720,000 for the cheapest offer. In most cases, however, the purchase price is more than PLN 1 million.

II. Secondary Market

In the single-family houses segment, Podgórze Borough is the best part of Krakow in terms of growth. This borough has recorded the largest number of transactions with the largest number of houses constructed there. The least attractive is Nowa Huta with its multi-family housing estates. The other two boroughs, Śródmieście and Krowodrza, are the most expensive in Krakow with Krowodrze providing development possibilities.

Podgórze has recorded some 200 transactions per year, which accounts for almost 60 percent of all transactions in Krakow. In Krowodrza, about 100 transactions are concluded every year, representing 30 percent of all transactions. Nowa Huta and Śródmieście are practically invisible in this market segment.

As far as turnover value is concerned, Podgórze and Krowodrza Boroughs have similar market shares (about 45 percent each). This is connected with much higher house prices in Krowodrza, which is considered to be the most attractive area in this part of the city. Turnover value, year in year out, has been increasing by tens of millions PLN. In 2003, the total turnover on the Krakow market amounted to PLN 86.7 million and after three years this value tripled to over PLN 225 million.

The number of transactions concluded in Krakow in the years 2003-2005 was at a constant level. This resulted from the small number of new projects in this market segment – turnover was mainly concentrated on the homes market. However, over the last two years, the number of transactions has increased markedly, which can be explained by the general upsurge in demand on the real estate market.

Table 29.
Total Value of Single-Family House Transactions in Krakow in the Years 2003-2007 (Q1 2007) in Millions of PLN

	2003	2004	2005	2006	Q1 2007
Śródmieście	8.2	11.0	11.4	13.0	4.7
Krowodrza	41.6	46.1	67.5	98.8	57.5
Podgórze	31.6	58.8	68.4	105.7	75.4
Nowa Huta	5.3	5.6	8.2	8.0	6.1
Total:	86.7	121.5	155.5	225.5	143.7

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

Table 30.
Single-Family Homes in Krakow – Number of Transactions, Turnover and Average Prices in the Years 2003 - 2007 (Q1 2007)

	2003	2004	2005	2006	Q1 2007
No of transactions	348	359	367	434	203
Turnover (PLN mln)	86.7	121.5	155.5	225.5	143.7
Average price (PLN)	250,000	340,000	420,000	520,000	710,000

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

Chart 5.
Average Prices of Houses in Krakow in the Years 2003-2007 (Q1 2007)

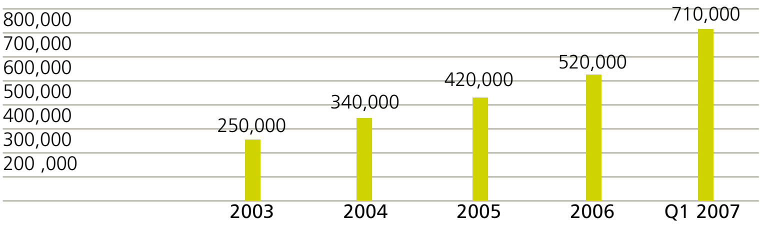


Table 31.
Average Prices of Houses in Krakow in the Years 2003-2007 (Q1 2007) in PLN

	2003	2004	2005	2006	Q1 2007
Śródmieście					
per house	340,000	330,000	460,000	590,000	670,000
per sq. m	2,683	2,677	3,262	3,923	6,149
Krowodrza					
per house	390,000	440,000	590,000	710,000	990 000
per sq. m	2,542	3,217	3,532	4,349	5,043
Podgórze					
per house	170,000	310,000	350,000	430,000	600,000
per sq. m	1,942	2,213	2,422	3,228	3,639
Nowa Huta					
per house	210,000	190,000	260,000	300,000	470,000
per sq. m	1,529	1,434	1,619	2,292	2,049

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

Krakow has been recording a consistent rise in prices. In 2003, the average price of a single-family house was around PLN 250,000. Now it has almost tripled, which can be explained by soaring land, material and labour prices as well as insufficient supply, given the upsurge in demand.

High prices of land have increased price polarization among particular Krakow regions. A few years ago, houses in the most expensive boroughs fetched double the price per sq m. of those in the cheapest boroughs. Now this difference has tripled.

At present Śródmieście has the highest prices per sq m. This is the result of the growing price of land and a large number of small houses that were built in this area in the 50s and 60s of the previous century. Their prices per sq m of building space are close to the average prices of apartments. Prices shot up by almost 60 percent from Q1 2006 to Q2 2007. The increase in other boroughs was much lower (approx. 12 percent) with Nowa Huta recording a drop in prices caused by houses planned for complete renovation and sometimes even for demolition.

The highest prices for houses are to be found in the Krowodrze administrative borough. The average price in this region has risen to almost PLN 1 million. In Wola Justowska region, a dozen or so houses have recently been sold for PLN 2-3 million.

A listing of transactions (Charts 6 and 7) by price range shows massive demand for houses up to PLN 1 million. Such houses have usually 200 sq m floorage. Larger houses, of more than 250 sq m, are relatively scarce (about 10 percent of the total supply).

Transaction price structures, influenced by soaring prices on the market, have been changing over the last five years. The changes are illustrated in the Table 31. At the beginning of the period under discussion, houses for more than PLN 1 million accounted for 1-2 percent of the total number of sales. Currently, they account for a dozen or so percent. Relatively inexpensive houses for up to PLN 500,000 constituted over 80 percent of all houses sold in 2003. Now they account for just 39 percent.

Chart 6.
Transactions by Prices in Q1 2007

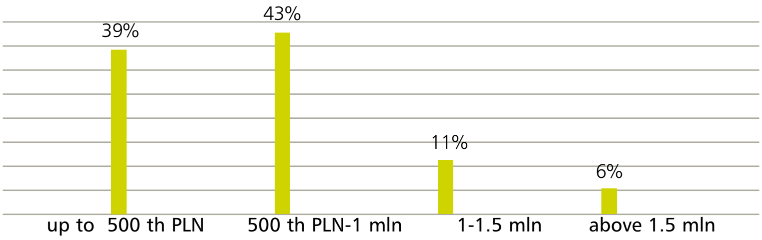


Chart 7.
Transactions by Floor Space in Q1 2007

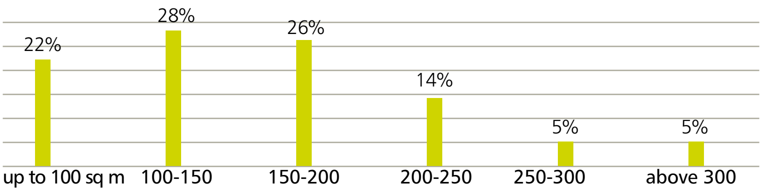


Table 32.
Number of Single-Family House Transactions by Price Range in the Years 2003-2007 (Q1); number (percentage)

	2003	2004	2005	2006	Q1 2007
up to 500th	231 (82%)	220 (81%)	271 (73%)	255 (57%)	83 (39%)
500th-1 mln	48 (17%)	47 (17%)	77 (21%)	160 (36%)	91 (43%)
1 mln-1,5 mln	4 (1%)	5 (2%)	14 (4%)	21 (5%)	24 (11%)
above 1,5 mln	– (0%)	1 (0%)	7 (2%)	11 (2%)	13 (6%)
Total:	283	273	369	447	211

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

Conclusions / Trends

- The single-family house market has recorded price increases paralleling the development of the apartment market.
- The price increases have been caused by insufficient supply lagging behind massive demand.
- Low supply has mainly resulted from the shortage of space for development and strong demand for multi-family buildings on the undeveloped land within the Krakow borders.
- The above factors are shifting the load of this real estate market segment onto neighbouring communes.

3.5.2

Single-Family Houses within the Metropolitan Area of Krakow

The substantial majority of houses in Poland are built by individual investors, which is still far from European norms, in which construction by developers prevails over individual construction.

I. Primary Market

Currently, some 2,000 houses a year in Poland are built by development companies. This accounts for five percent of the entire single-family housing construction market. However, this proportion has been changing year by year.

In this context, Krakow is bucking the trend given the size and number of investments executed by development companies building single-family homes. That said, the number of investments within the city borders demonstrates a downward trend. There is a number of explainations for this situation: high land prices, non-existent zoning plans for roughly 88 percent of the city area, shrinking land resources for single-family housing, plot owners' desire for (economically justified) high-density development and a preference for multi-family housing. All these elements have brought the bulk of single-family building sector market activity to neighbouring communes in Krakow and Wieliczka Poviat.

Zielonki, Zabierzów and Wieliczka are the most fashionable Communes located near Krakow, with development companies working intensively in the area. Among other developing communes are Michałowice and Mogilany; recently Wielka Wieś and Niepołomice have also joined this group. Development companies are considering the possibility of investment in fur-

Table 33.
Investments in Progress outside Krakow (in PLN/sq m) – as of March 2008:

Zielonki Commune, Krakow Poviat		
Bibice	Osiedle Jurajskie Wzgórze	4,700
Bibice	Wichrowe Wzgórza	4,676
Zielonki	Osiedle Tęcza	4,500
Zielonki	Osiedle Jurajskie	4,500
Zielonki	Osiedle Rzyczyska	4,200
Michałowice Commune, Krakow Poviat		
Michałowice	Brzozowe Wzgórze	5,026
Masłomiąca	Domy Saritor Park	4,846
Węgrzce	Osiedle Słoneczne Błonia	4,500
Michałowice	Inwestycja Michałowice Komora	4,300
Michałowice	Michałowice Komora Street	4,255
Michałowice	Domy na Leśnej	3,800
Węgrzce	Osiedle przy Fortach	3,650
Zabierzów Commune, Krakow Poviat		
Bolechowice	Inwestycja Bolechowice	4,833
Brzezie	Inwestycja Domków	4,700
Karniowice	Rezydencja w Karniowicach I	4,227
Zabierzów	Cichy Kącik	4,100
Pisary (Zabierzów)	Osiedle pod Kasztanami	4,100
Zabierzów	Lipowy Gaj	3,800
Karniowice	Rezydencja w Karniowicach II	3,600
Wielka Wieś Commune, Krakow Poviat		
Modlniczka	Osiedle przy Dworze	5,300
Modlniczka	Osiedle Polne Zacisze	4,708
Wielka Wieś	Widokowa Polana	4,600
Giebułtów	Polana Trojadyn	4,439

ther communes: Liszki, Czernichów and Iwanowice. Until recently, only individual investors have been operating in that region.

Chart 9 shows the strong position of housing investments in Wieliczka Poviat, with a share of over 1/3 of such investments currently in progress. This mainly results from the development of a sub-zone of the Krakow Special Economic Zone in Niepołomice. Polish developers are following in the footsteps of large concerns, erecting housing for company employees.

House prices are highest in Krowodrza and Podgórze Communes, the most fashionable regions, directly adjacent Krakow. Development companies are not investing in communes bordering with the industrialized Nowa Huta region.

According to available data, for each developer investment in single-family homes within the city's borders there are five such investments outside the city. Home prices are lower than in Krakow and depend mainly on transportation access to the city and the attractiveness of the surrounding landscape.

Prices of the majority of single-family projects executed by development companies in the Krakow area are in the neighbourhood of PLN 1 million per house, while on the suburban market the price of a house is about PLN 450,000. One should remember, however, that a house at this price is built according to the core and shell principle and has to be finished by the buyer himself, which, depending on the standard desired, may account only for about 70-80 percent of the investment in construction works. Therefore it may be concluded that moving to a house near Krakow requires capital outlays of at least PLN 600,000, but on average nearer to PLN 800,000.

II. Secondary Market

The market in single-family homes in communes near Krakow and Wieliczka Poviat has been booming for years. Very high prices for apartments in Krakow have triggered a migration to suburban areas, where people have been buying houses and plots for building their own homes. The dynamic upsurge in demand has naturally raised prices for houses and building plots.

Comparing 2006 to 2007 in terms of purchase-sale transactions, a small drop in transactions in both poviats is noted; however, turnover levels continue to rise.

Iwanowice Commune, Krakow Poviat		
Narama	Narama	3,464
Liszki Commune, Krakow Poviat		
Mników	Osiedle w Mnikowie	4,292
Czernichów Commune, Krakow Poviat		
Wołowice	Szlacheckie Wzgórze	4,570
Mogilany Commune, Krakow Poviat		
Mogilany	Parkowe Wzgórze	4,600
Lusina	Rodzinne Wzgórze	4,400
Konary	Osiedle pod Lasem	4,200
Libertów	Osada Libertów	3,700
Wieliczka Commune, Wieliczka Poviat		
Golkowice	Słoneczna Osada	4,820
Wieliczka	Osiedle Dębowe	4,809
Koźmice Wielkie	Słoneczna Polana	4,382
Wieliczka	Jasne Wzgórze	4,130
Ochojno	Domy w Ochojnie	4,109
Wieliczka/Pawlikowice	Zielona Polana	3,800
Wieliczka	Zielona Polana	3,400
Strumiany	Osiedle Strumiany	3,300
Kokotów	Brzozowy Zagajnik	3,300
Wieliczka	Osiedle Bella Vista	3,200
Niepołomice Commune, Wieliczka Poviat		
Niepołomice	Inwestycja pod Kopcem	4,200
Niepołomice	Osiedle Boryczów	4,200
Niepołomice	Inwestycja mieszkaniowa Żubr	3,972
Niepołomice	PARKEKO	3,500

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

Chart 8.
Share of Investments Carried out by Development Companies on the Metropolitan Krakow Market in Single-Family Housing (Q1 2008)

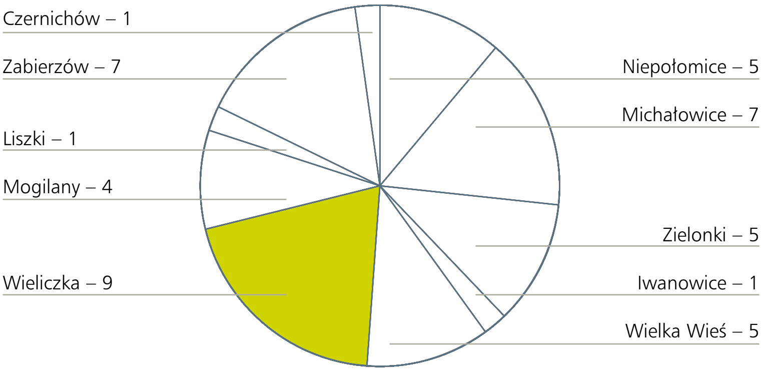
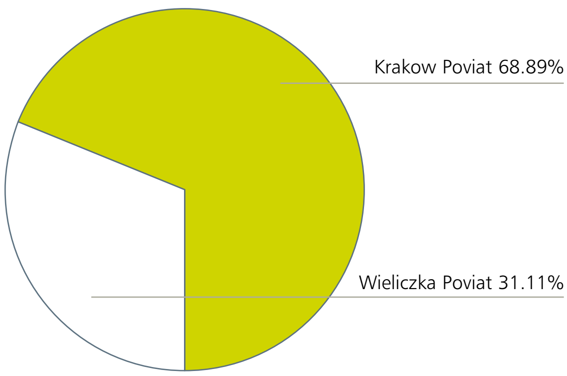


Chart 9.
Investments Carried out by Development Companies on the Market of Single-Family Houses in Krakow and Wieliczka Poviats (Q1 2008)



The average price increase in 2007 compared with 2006 in Krakow Poviat has shot up by 30 percent and in Wieliczka Poviat by 20 percent.

The strongest demand is for houses within a distance of 25 km from Krakow, towards the north-west and south. The positions of Mogilany, Zielonki, Zabierzów, Michałowice, and Wielka Wieś remain strong. The demand for smaller houses up to 200 sq m, built after 1990 and ranging from PLN 550,000 to 700,000 has soared. Core and shell houses to be finished individually by buyers enjoy great interest, as well as old houses for general overhaul or renovation. The houses most difficult to sell are those from 70s and 80s (drab architecture, poor quality building materials, expensive to maintain).

II. 1. Krakow Poviat:
2007 recorded 465 single-family homes sold in Krakow Poviat, which represents about a 4 percent drop over 2006. Turnover in 2006 amounted to PLN 133.7 million, and in 2007 was higher by about 25 percent, amounting to PLN 167.3 million. In 2007, 14 transactions were concluded for above PLN 1 million each. Eight of them were concluded in Mogilany Commune and three in Zielonki and Wielka Wieś Communes. The most expensive transaction was recorded in 2007 in Włosań, Mogilany Commune, with PLN 2.95 million paid for the house.

Communes recording the greatest number of single-family house transactions:
• Mogilany Commune
• Zielonki Commune
• Skawina Commune

The highest turnover totals were recorded in Mogilany Commune and the highest average transaction price per sq. m of floor space in Wielka Wieś Commune, located north-west of Krakow (about 15 km from the centre). Due to its landscape and tourist attractions, the Commune is often visited during weekends; an oasis of peace, where many Cracovians have decided to live, trying to escape the noise of the big city.

Analysis of transaction data shows that properties located north and south of Krakow are in the strongest demand.

Chart 10.
Average Prices of Single-Family Houses in Individual Krakow Communes (per sq m)

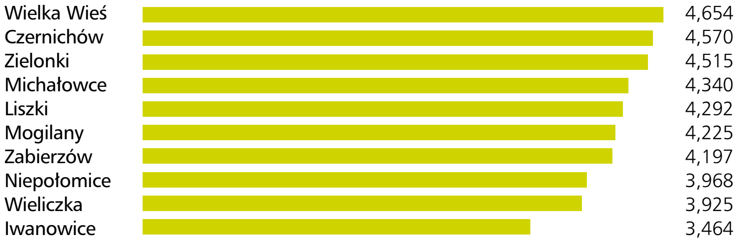


Chart 11.
Average Prices of Single-Family Houses in Communes Bordering Krakow

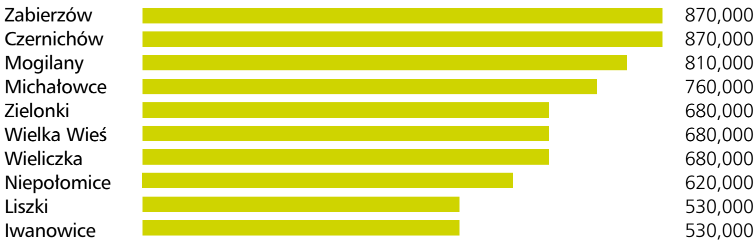


Table 34.
Number of House Transactions in Krakow and Wieliczka Poviats in 2006 and 2007

	2006	2007
Krakow Poviat	486	465
Wieliczka Poviat	293	230

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

Table 35.
Turnover in House Transactions in Krakow and Wieliczka Poviats in 2006 and 2007

	2006 (PLN)	2007 (PLN)
Krakow Poviat	133,622,647.93	167,294,302.10
Wieliczka Poviat	70,634,338.70	72,814,017.66

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

Houses for sale offers (end of 2007):

Listed below are the communes with the greatest number of offers with properties for sale:
• Mogilany Commune – approx. 140
• Zielonki Commune – approx. 130
• Zabierzów Commune – approx. 100
• Michałowice Commune – approx. 90
• Wielka Wieś Commune – approx. 80
• Świątniki Górne Commune – approx. 60

The smallest number of offers is in Igołomia--Wawrzeńczyce, Sułoszowa, and Słomniki Communes

The most expensive offers were recorded in:
• Włosań, Mogilany Commune – PLN 4.2 million; house, 2004, floor space 350 sq. m, plot area 6,400 sq. m
• Zielonki, Zielonki Commune – PLN 4.1 million; house, 2005, floor space 480 sq. m, plot area 5,000 sq. m.
• Wielka Wieś Commune – PLN 3.5 million; house, 2000, floor space 400 sq. m, plot 3 ha.
• Michałowice, Michałowice Commune – PLN 3.5 million; house, 1996, floor space 450 sq. m, plot area 6,500 sq. m.

II. 2 Wieliczka Poviat:

In 2007, Wieliczka recorded the majority of transactions in Wieliczka Poviat, closely followed by Niepołomice Commune. Lower turnover in properties was recorded in other areas.

As far as offers for sale of single-family houses are concerned, Wieliczka Commune is also leading the way (approx. 150 offers) followed by Niepołomice (approx. 90 offers).

The number of transactions in 2007 against 2006 dropped by about 27 percent (from 293 in 2006 to 230 in 2007). The turnover in 2007 was PLN 72.8 million and was higher by about 3 percent versus 2006.

The most expensive properties were sold in Niepołomice (PLN 2.5 million; floor space 400 sq. m, plot 3,000 sq. m) and Wieliczka (PLN 1.6 million; property from 1939, after a general renovation in 1996, floor space 300 sq. m, plot 2,300 sq. m).

2007 recorded in Wielice Poviat 3 transactions of more than PLN 1 million. The most expensive was concluded in Siercza, Wieliczka Commune. The property was sold for PLN 1.5 million.

Table 36.
Average Unit Price of a House in Krakow and Wieliczka Poviats in 2006 and 2007

	2006 (PLN/sq. m)	2007 (PLN/sq. m)
Krakow Poviat	2,129.42	2,956.56
Wieliczka Poviat	1,873.92	2,547.87

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

Table 37.
Figures Profiling the Secondary Market in the Communes of Krakow Poviat in 2007

Commune	Number of transactions	Volume (PLN thousand)	Average transaction price (PLN)	Average price per sq m
Czernichów	29	5,991	206,614	2,357.62
Igołomia--Wawrzeńczyce	8	1,235	154,375	2,956.88
Iwanowice	14	3,880	277,143	2,556.56
Jerzmanowice--Przegini	11	2,151	195,537	3,506.24
Kocmyrzów--Luborzyca	33	6,784	205,604	1,571.64
Krzeszowice	47	8,885	189,032	2,139.10
Liszki	37	12,041	325,432	3,371.94
Michałowice	28	12,506	446,643	3,163.10
Mogilany	55	27,778	505,046	3,473.63
Skała	10	2,008	200,800	2,315.06
Skawina	41	10,293	251,037	2,598.61
Słomniki	27	3,725	137,963	2,035.40
Sułoszowa	9	976	108,444	2,724.77
Świątniki Górne	15	4,704	313,613	2,490.48
Wielka Wieś	22	11,627	528,521	4,013.65
Zabierzów	32	11,986	374,547	3,943.81
Zielonki	47	23,835	507,124	3,391.19

Source: Institute of Analysis The Real Estate Market Monitor – mrn.pl
* Average price per sq m calculated from transactions in which usable floor space was reported.

Niepołomice Commune is experiencing dynamic development attracting individual investors as well as large domestic and foreign concerns. Together with new commercial investments and expansion of the road infrastructure (Kraków – Przemyśl A4 motorway), the number of properties sold has gone up. The prices demonstrate an upward trend due to supply lagging behind demand. In 2007, unit prices of properties in Niepołomice were higher than in Wieliczka.

Table 38.
Figures Profiling the Secondary Market of the Secondary Residential Market in the Communes of Wieliczka Poviat in 2007

Commune	Number of transactions	Volume (PLN thousand)	Average transaction price (PLN)	Average price per sq m
Biskupice	14	3,624	258,872	2,512.50
Gdów	23	3,785	164,565	1,868.06
Kłaj	23	3,805	165,451	2,411.25
Niepołomice	43	13,892	323,070	3,212.69
Wieliczka	127	45,338	356,995	2,566.53

Source: Institute of Analysis The Real Estate Market Monitor – mrn.pl
* Average price per sq. m calculated from transactions in which usable floor space was reported.

Conclusions / Trends

- For every investment in single-family houses within the city borders by a development company, five investments are made outside the city. The shortage of land resources for single-family housing in the city, high land prices, and plot owners desiring high-density development are shifting the single-family building sector to adjacent communes in Krakow and Wieliczka Poviats.

- Properties located north and south of Krakow are in the strongest demand, specifically for smaller houses (up to 200 sq. m); Zielonki, Zabierzów and Wieliczka, built after 1990, are the most fashionable Communes near Krakow with actively operating development companies.

- The average price increase of properties in 2007 comparing with 2006 in the Krakow Poviat shot up by 30 percent and in Wieliczka Poviat by 20 percent.

- The secondary market recorded the strongest demand for smaller properties (up to 200 sq. m), built after 1990. Houses for individual finishing and old properties for general overhaul or renovation enjoy the greatest interest. The most difficult to sell are houses from the 70s and 80s.

4

Land

4.1 Land in Krakow

The years 2006 and 2007 in Krakow saw a strong upward tendency regarding figures for concluded land transactions and volume of business on the market. Over the last two years, turnover has shot up in comparison to 2003-2005.

In 2006, the value of land transactions concluded amounted to about PLN 1.1 billion. In 2007 this amount hit a record, exceeding PLN 2.5 billion. The regional market saw transactions for tens and hundreds of millions of PLN which previously were quite rare. Many transactions were concluded by special-purpose vehicles, whose only assets were lands purchased for investment.

The value of land transactions in 2006 accounted for about 30 percent of all transactions on the real estate market in Krakow. 2007 saw this share increase and exceed 35 percent. Trading in ownership rights definitely prevailed; sale of usufruct rights to the land accounted for a mere 10 percent of the total of sale contracts.

As of the end of 2003, and specifically after Poland's accession the European Union in 2004, prices soared. The average price per sq. m of land in Krakow, according to quotations from 2007, was over 170 percent higher than in 2003.

The greatest proportion of land turnover transactions is for building plots for residential construction, specifically single-family structures. The plots are in strong demand – in the years 2006 and 2007 they accounted for about 60 percent of all transactions in land for construc-

Table 39.
The Number and Value of Land Transactions in the Years 2004-2007

	2004	2005	2006	2007
No of Transactions	1,100	1,100	1,500	1,600
Trade (in PLN mil)	368	380	1,100	2,500

Source: Institute of Analysis The Real Estate Market Monitor – mrn.pl
* (the data do not include land purchased by the commune (Gmina) and State Treasury for investment in road infrastructure)

Table 40.
The Average Price per sq m of Land in 2004-2007

	2004	2005	2006	2007
Average Price	194 PLN	231 PLN	301 PLN	398 PLN

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

tion. This is the result of a surge in apartment prices and the increasing competitiveness of investment in single-family housing in comparison to apartments in multi-family units, as well as the commonly-held belief that an above-average return on investment can be realised in this particular market.

However, taking into consideration the value of transactions in this real estate segment, plots for multi-family residential construction of high density housing exceeded 50 percent of turnover on the land market in 2006 and 60 percent in 2007. The land for commercial, industrial and logistics projects in 2006 accounted for about 20 percent of turnover, and in 2007 – 15 percent. The remaining turnover (20-25 percent) fell on plots for single-family home construction.

The volume of turnover shows that the greatest boom was recorded in the multi-family residential construction market. Each plot in Śródmieście, Krowodrza or closer to the downtown Podgórze locations that was fit for this type of development saw a price increase in 2006 to above PLN 500/sq m and in 2007 over PLN 1000/sq m. The prices of land situated near downtown or inside the so-called "second ring road" (between Aleje Trzech Wieszczów and Dietla Street) in the region between Kościuszki and Wrocławska streets in Kazimierz, as well as in the old part of Podgórze, in Dębniki, and in Grzegórzki were in most cases at the level of several thousand PLN per sq m, and on average – from 2,000 to 4,000 PLN/sq m. The highest prices were recorded for "ready to invest" plots – with a decision already issued regarding the land use permit or even building permits.

The large share of plots for high density housing in turnover confirms that this segment has yielded the highest rate of return over the last two years due to strong demand for apartments.

A consistent upward trend was recorded in the prices of plots for single-family construction and low density housing in the Krakow downtown region. In attractive Krowodrza, the average price in 2007 was more than PLN 400/sq m. The highest prices for low density housing- sometimes above PLN 1,300/sq m – were in Wola Justowska. In the largest area, Podgórze, with vast tracts of undeveloped land, average prices were around PLN 250/sq m, mainly due to high trade in relatively cheaper land in the city's outskirts. In many locations (e.g. Wola Duchacka, Kliny, Łagiewniki, Borek Fałęcki) standard prices ranged from PLN 400-500/sq m. Average prices in the entirety of Krowodrza and Podgórze went up through 2007 by an average of about 40 percent, although in some locations the price increase was as great as 100 percent. Paradoxically, in many regions, the expiry of the Master Plan for Krakow in

Table 41.
Average Prices of Land for Single-Family Low Density Housing (PLN per sq m)

	2004	2005	2006	2007
Śródmieście	250	311	500	data not available
Krowodrza	223	260	360	440
Podgórze	115	114	180	250
Nowa Huta	60	80	80	90

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

Table 42.
Average Prices of Land for Multi-Family Residential Construction of High Density (PLN per sq m)

	2004	2005	2006	2007
Śródmieście	860	1 500-1 700	1 900	2 960
Krowodrza	726	776	850	1 990
Podgórze	295	500	600	1 230
Nowa Huta	175	200	350	480

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

2003 created options for the development of former agricultural and green land owing to the so-called "good neighbour" rule applicable when issuing a decision for a land use permit (in locations where local zoning plans are not applicable, in order to obtain a building permit a decision regarding a land use permit is required; if the zoning plan is valid for a given area, decisions regarding the building permit are issued).

Commercial land prices in Śródmieście, Krowodrza and Podgórze in 2006 were, on average, about PLN 600/sq m, with the highest prices reaching PLN 1,000/sq m. In 2007, price levels climbed slightly with a considerable drop in turnover recorded in this market segment. Due to a shortage of appropriate land, strong demand for land for hotel and office development was recorded but not fully satisfied.

A strong demand for commercial facilities was noted for plots of 2,000-5,000 sq m over the last two years, to be used for smaller facilities and shopping centres. Investors, aware of the existence of market saturation with large shopping centres, are penetrating the so-called "Microlocations" segment with lower impact on housing estates. Plots of such a size range in cost from PLN 300 to 800/sq m.

As far as industrial plots are concerned, which are in effect available in Podgórze and Nowa Huta only, prices in 2006 were at the level of PLN 100-200/sq m and in Nowa Huta PLN 80 -180/sq m. In 2007, prices in Podgórze went up to PLN 120-300/sq m and in Nowa Huta to PLN 100-250/sq m.

Another dynamically developing land market segment in 2006-2007 – alongside the one for multi-family housing – was the land market for logistics facilities. Since 2003 we have noted an unbroken increase in the annual turnover value and the size of space sold; since 2005, quantity and value have soared. In 2006, turnover increased to almost PLN 40 million and the area of land sold to almost 30 ha. In 2007, turnover was almost PLN 100 million and the area of terrain sold almost doubled in relation to 2006, which makes it approximately 60 ha. An upward trend in the amount of land sold in single transactions has been noticed. Prices in this segment have also shot up. In 2004-2005, the lower limit of the price range did not change but the upper limit went up to PLN 200/sq m. The average transaction price has increased; in 2004 it was about PLN 60/sq m, and in 2005 PLN 87/sq m. In 2006 and 2007, the upper limit of prices considerably exceeded PLN 300/sq m, and the average price was PLN 120/sq m.

A market becoming ever more mature and demanding attracts investors buying land and creating genuine logistics centres on a space of several or several dozen hectares.

The market has clearly set and shaped the areas of logistics facilities locations. They are situated in the west part of the city around the A4 Ring Road at the longitude of Balice, Sidzina and Podgórki Tynieckie, along with Skotnicka Street and also a 180 hectare investment area in Skawina in close proximity to Krakow.

The traditionally industrial and commercial area of Rybitwy, with one of the first logistics centres, is situated in the east part of Krakow. Recently, the area has become more attractive due to the construction of the east segment of the Krakow Ring Road with an exit near Christo Botewa Street. This area has noted a record number of transactions. The area still offers undeveloped land. Currently prices are at the level of PLN 100-300/sq m and continue rising. Urban renewal processes taking place in Krakow have an influence on the shape of the land market in the city. A lack of undeveloped land along with large, unsatisfied demand for residential construction plots in the downtown and other attractive locations constitutes a mechanism supporting the take over of rejuvenated industrial areas for attractively-located projects.

Major examples in 2007 of land release for investments as a result of renewal: in Śródmieście, the industrial area in Grzegórzek from the Vistula boulevards to Pokojuand MADRO plant in Pokoju Alley; areas in Podgórze along Monte Cassino Street and Zabłocie; and in Krowodrza, the region around Wrocławska Street.

Conclusions / Trends

- The value of land turnover in 2007 accounts for about 35 percent of all transactions on the market.
- The average price per sq m of land in the Krakow area, according to data from 2007, was over 170 percent higher than in 2003, reaching almost PLN 400/sq m.
- Considering the value of land transactions, plots for residential construction of high density housing had the greatest share in the market in 2007 – over 60 percent.
- The last two years have seen a strong demand for plots of 2,000-5,000 sq m to be used for smaller commercial facilities and shopping centres.
- The booming market of land for logistics facilities in the Krakow area is reflected in the considerable increase of land sold and soaring prices.

4.1

Land in the Metropolitan Area of Krakow

Spring 2007 was a crucial moment for the Krakow suburban real estate market, especially with regard to land. Building plot prices hit a record of PLN 200/sq m in the summer of 2007 in almost all localities situated in the immediate vicinity of Krakow.

The number of transactions was at a similar level as in 2006 but the total amount of turnover comparing with the last year was almost doubled.

The majority of transactions showing the greatest upward trend in price growth are land transactions for housing construction. They account for a substantial majority of the total supply. Rapid price increases have resulted in intensive building activity in the housing sector in the localities situated near Krakow. Developers that, until recently, have been present in few localities but now find themselves operating in almost all communes in the poviat, owing to a desire to reduce the share of the land purchase price in the total investment cost are building semi-detached and terraced houses. Numerous investments in the multi-family housing sector, not only in areas adjacent Krakow but also those located some distance from the city borders, constitute a new phenomenon.

Table 43.
Number of Land Transactions in the Krakow Vicinity

	2006	2007
Krakow Poviat	3,300	3,482
Wieliczka Poviat	1,666	1,647

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

Table 44.
Total Turnover of Land Transactions in the Krakow Vicinity

	2006	2007
Krakow Poviat (in PLN)	348,925,496	673,713,006
Wieliczka Poviat (in PLN)	122,658,007	266,449,841

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

The second group includes transactions of agricultural or green land. As in previous years, the largest group of transactions was concluded in Igołomia-Wawrzeńczyce, Słomniki and Kocmyrzów-Luborzyca Communes and in Myślenice Poviat.

Other transactions, smaller in number, include land for commercial purposes for retail, services and industry. They are usually concluded in the localities in which communes have their seats; towns like Wieliczka, Krzeszowice, Niepołomice and Skawina, and those near the airport (Balice, Szczyglice, Cholerzyn).

In 2007, Wieliczka Commune saw a record (without distinction by type) in land transactions. Myślenice, Niepołomice, Liszki, Zabierzów and Skawina also experienced a boom on the real estate market. The least active market, as in previous years, was in the Sułoszowa Commune situated in the protection zone of Ojcowski National Park as well as in typically agricultural communes like Igołomia-Wawrzeńczyce and Słomniki.

Average unit prices of plots for single-family houses construction range from about PLN 35/sq m in typically agricultural Słomniki and Igołomia-Wawrzeńczyce Communes to about PLN 150/sq m in Zielonki, Mogilany and Wielka Wieś Communes. In the most attractive places like Rząska, Libertowo, Zielonki, for a typical plot of 700 to 1,000 sq m for home construction the buyer will pay over PLN 200/sq m. In less attractive places, the price is PLN 100/sq m. Unit prices of land to be used for higher density housing investments (single-family terraced houses or multi-family buildings) fluctuate from PLN 300-500/sq m. Such transactions mainly take place in the localities in the immediate vicinity of Krakow.

Prices of agricultural land or land indicated as green in zoning plans vary greatly. In areas that are located far away from urban areas or with underdeveloped road networks prices are PLN 5-10 /sq m. In the vicinity of urban areas, land is much more expensive and in the most attractive localities can be even PLN 30/sq m.

The prices of commercial land (including industrial land) range from PLN 70 to 150/sq m (on the territory of Niepołomice and Skawina) and PLN 100 to 350/sq m (near Zabierzowo and the airport in Balice).

Table 45.
Number of Land Transactions and Average Prices of Land for Single-Family Homes (PLN per sq m)

	Transactions 2007	Prices 2006	Prices 2007
Krakow Poviat			
Czernichów	232	32.18	55.47
Igołomia-Wawrzeńczyce	46	17.13	35.31
Iwanowice	126	32.62	67.96
Jerzmanowice-Przeginia	116	38.34	63.01
Kocmyrzów-Luborzyca	286	33.99	56.76
Krzeszowice	218	43.92	59.82
Liszki	374	57.62	95.56
Michałowice	244	73.95	126.32
Mogilany	277	92.44	148.83
Skała	118	35.88	55.53
Skawina	358	51.64	68.86
Słomniki	124	22.53	34.73
Sułoszowa	32	18.36	46.65
Świątniki Górne	124	48.98	92.72
Wielka Wieś	200	92.53	145.98
Zabierzów	369	93.89	124.22
Zielonki	199	100.71	154.47
Wieliczka Poviat			
Biskupice	241	28.48	53.63
Gdów	213	23.32	29.21
Kłaj	120	19.46	38.73
Niepołomice	387	52.25	79.00
Wieliczka	611	57.29	90.62
Myślenice Poviat			
Myślenice	432	55.80	68.46
Dobczyce	171	31.43	35.30
Siepraw	99	38.78	41.04
Raciechowice	61	21.72	21.42
Sułkowice	102	22.11	35.71

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

Conclusions / Trends

- Building plot prices in almost all localities situated in the immediate vicinity of Krakow in 2007 went up to a record of PLN 200/sq m. The number of transactions was at a similar level as in 2006 but the total amount of turnover in comparison to the previous year was almost double.
- The largest group of transactions showing the most rapid upsurge in prices includes land for housing construction. Numerous investments in the multi-family building sector, not only in the areas adjacent Krakow, but also located within some distance from the city borders are a new phenomenon.
- 2007 recorded the largest number of land transactions in Wielice Commune. Myślenice, Niepołomice, Liszki, Zabierzów and Skawina Communes also experienced a boom in the real estate market.
- Average unit prices for land to be used for single-family housing construction range from about PLN 35 /sq m to over PLN 200/sq m in the most attractive locations (e.g. Rząska, Libertów, Zielonki).
- Unit prices of land to be used for higher density housing investments (singe-family terraced houses or multi-family buildings) range from PLN 300-500/sq m. Such transactions mainly take place in the localities that are in the immediate vicinity of Krakow.

5

Retail Space

The retail space market in Krakow, after a period of dynamic growth of prime facilities recorded at the turn of the century, has slowed down in recent years.

The retail space market in Krakow, after a period of dynamic growth of prime facilities recorded at the turn of the century, has slowed down in recent years. The total retail space in cutting-edge facilities reached a level of 445,000 sq m at the end of 2007. 2007 itself saw the opening of only one shopping centre – Solvay Park, 23,500 sq m in Zakopiańskia Street (opposite the Zakopianka shopping centre). This is the smallest of all retail galleries currently operating in Krakow.

With regards to the kind of shops and spaces available, the market can be divided into the following segments:

Shopping Centres:
- Galeria Kazimierz – investor Globe Trade Centre (GTC); total retail and entertainment area of 36,000 sq m including multiplex complex;
- Krakow Plaza occupying over 40,000 sq m, including multiplex complex with 9 screens, IMAX, bowling alley, disco and billiards room;
- Galeria Krakowska, approx. 60,000 sq m
- Galeria Solvay Park -23,500 sq m, the smallest newly-opened retail space
- Galleries: M1, Czyżyny and Krokus, in strip centres

Grocery hypermarkets
Carrefour (3), Tesco (2), Kaufland (1), Real (2).

Table 46.
Size of Retail Space in Particular Market Segments

Market Segment	Area in sq m
Retail Galleries	163,500
Neighbourhood Chain Stores	22,000
Hypermarkets	108,000
Cash & Carry	30,000
Supermarkets	24,500
Building Materials Hypermarkets	80,000
Discount Stores	16,500
Total	444,500

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

Building materials hypermarkets:
Castorama (3), Obi (2), Praktiker (1), Leroy Merlin (2 – including one not in Krakow but located immediately outside the city administrative borders).

Facilities "Cash and Carry"
wholesale type (Makro Cash & Carry, Selgros)

Supermarkets:
Albert, Tesco, Champion, Elea, Alma.

Discount stores:
Biedronka, Plus, Lidl.

Neighbourhood chain stores:
Polomarket, Aldi, Avita, Spar, Jubilat, Lewiatan, Żabka, Kefirek.

Stores along main downtown high streets

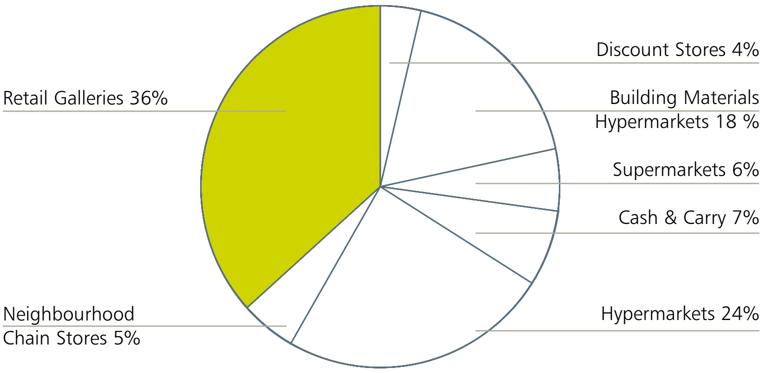
Other assorted retail space

New hypermarket construction has stagnated in recent years, which results from legal restrictions imposed on the construction of stores above 2,000 sq m as competition for locally owned businesses.

Krakow, in comparison to other cities, shows a moderate saturation level of large format stores. The market of supermarkets is developing in a different way as a result of soaring commercial land prices and restrictions attributed to urban planning. Free-standing shopping space using light steel frame technology is no longer being constructed in Krakow. In previous years, such investments were scarce (Elea, Champion, Kaufland). Currently, chain stores operators have began to lease area on the ground floors of residential buildings or in regional strip centres (Carrefour – Łokietka Street, Carrefour Express – Lea Street, and Albert – Bobrzyńskiego Street).

The discount store market with a limited merchandise mix sold at relatively low prices, given customers' rising expectations regarding the quality of service and selection, is undergoing significant changes. The differences between supermarkets and discount stores are gradually fading away. The above tendencies can be observed in the Biedronka chain, which is systematically remodelling its stores. Large format delicatessens such as Bomi and Alma, present in major metropolitan agglomerations, have also entered the Krakow market. Alma Market was the first to launch this type of delicatessen, in 2005, at Galeria Kazimierz. The development of the new formula of large format delicatessen springs from the improving financial situation of customers in metropolitan agglomerations and their wish to buy prime quality goods that are rarely available in traditional supermarkets. Neighbourhood chain stores are maintaining their established position on the real estate market. Many retail businesses have been built on the former premises of food

Chart 12.
Share of Specific Segments in Overall Retail Space



shops of the eighties, such as the ABC chain which was taken over by Polo Market. In recent years, a number of stores have emerged as a result of the conversion of facilities that had served other functions – such as Kefirek or Żabka stores.

It should be stressed that the clear division of retail space into retail galleries and hypermarkets has been blurred. It is becoming more and more common that a considerable part of a gallery is rented by grocery and building materials hypermarkets (Leroy Merlin in Czyżyny Shopping Mall, Praktiker in M1) and supermarkets (Carrefour at the Galeria Plaza and Galeria Krakowska). Hypermarkets within the city borders are combined with retail galleries creating shopping centres in a pattern that is not limited to just one district, e. g. Zakopianka Shopping Centre, M1 Shopping Centre, Krokus Shopping Centre, Czyżyny Shopping Centre.
Krakow is also offering space in tenements that have been converted into commercial functions (Rynek Główny 13, Galeria Centrum (the corner of Anny and Wiślna Street), Herbewo in Słowackiego Alley).

Due to the above-mentioned restrictions imposed on the development of retail chains with respect to the construction of new facilities, the market has been undergoing a polarization process that mainly consists of the takeover of chains that have decided to limit or discontinue their business activity on the regional or domestic markets. The following takeovers have been observed on the Krakow market:
- ABC chain by Polo Market in 2006
- Julius Meinl chain by Tesco in 2005

And on the domestic market:
- Leader Price chain by Tesco in 2006
- Geant Hypermarkets by Metro Group in 2006
- Ahold (Hypernova and Albert stores) by Carrefour

As the Krakow real estate market shows a considerable deficit in retail facilities, almost all chain stores in Poland are planning new investments in shopping malls, hyper- and supermarkets, such as:
- TriGránit Company has already begun construction of a retail and entertainment centre of over 100,000 sq. m with an Auchan Hypermarket and three class-A office buildings with an area of 30,000 sq. m on the premises of the former "Bonarka" Chemical Plants.
- Neinver Company has been proceeding with preliminary activities for construction of a shopping centre of 15,000 sq m near the A-4 Motorway.

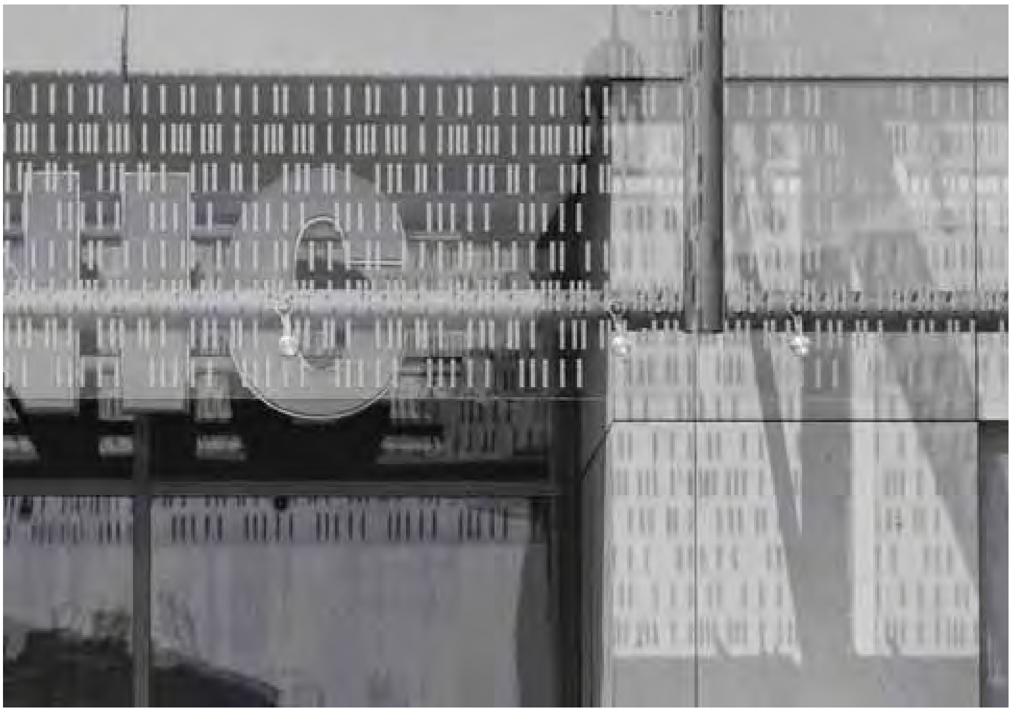
Table 47.
Retail Space Leasing Rates in Krakow

Type of the Facility	Leasing Rate
Large format delicatessen	PLN 40/sq m + PLN 7-8/sq m service charges
Supermarkets	Ranging from PLN 30/sq m (core and shell construction) to PLN 54/sq m (lease to be delivered turn-key)
Discount Stores	PLN 25-35/sq m
Neighbourhood Stores	PLN 20-30 /sq m
Stores in shopping galleries	The prices depend on the size of lease, anchor tenants, size of gallery and range from PLN 70/sq m to 130 /sq m to 130 /sq m in small retail galleries located in strip centres and PLN 80-200/sq m in established retail galleries
Stores at main pedestrian precincts precincts in the Old Town (e.g. Floriańska, Szewska, Grodzka)	PLN 150-400/sq m
Stores at the main downtown high streets (e.g. Karmelicka, Zwierzyniecka, Długa, Starowiślna, Stradom, Krakowska)	PLN 80-200/sq m

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

Average rentals recorded on the real estate market from 2006 have not changed. However, the amount of free space to rent in galleries and shopping centres has seen a significant decline. At the end of 2007 and the beginning of 2008, the Plaza Shopping Centre alone offered a majority of the space for let.

The Krakow municipal authorities and housing co-ops are important stakeholders in the retail space market. The retail estate resources belonging to the municipality cover approx. 170, 000 sq. m, situated in residential buildings on the ground floors. A portion is leased at non-commercial rates. The municipality has been gradually reducing the number of such lease agreements and has begun the sale of commercial space.



Conclusions / Trends

- In the near term Krakow will experience growth in the commercial real estate market owing to new investments – construction of large retail and entertainment centres and smaller regional facilities.

- Changes on the commercial real estate market in Krakow over the last few years have taken place in the following areas:
  - development of large shopping centres
  - development of delicatessens
  - lack of free-standing retail facilities like supermarkets
  - restrictions in the development of hypermarkets

- Basic reasons for the above-listed changes:
  - upsurge in real estate prices
  - growing demands of customers (quality shopping, product assortment)
  - urban planning-related restrictions, long administrative procedures
  - relatively low supply of prime retail space per number of residents compared to other large cities.

6. Warehouse Space

A good location – on the route connecting the industrial Upper Silesia region (Śląsk) and south-western part of the country (including Germany and the Czech Republic), along with the eastern voivodships and Ukraine, and finally central Poland with Zakopane – has made Krakow known as an attractive location for warehouse space. The demand for this kind of real estate is strong and continually growing.

Podgórze and Nowa Huta are the regions enjoying the greatest interest of investors in Krakow. The existing infrastructure, comprised of the remnants of former industrial plants, have good back-up facilities and considerable latent potential in the space to be developed.

There are no possibilities to invest in warehouse facilities in Śródmieście and Krowodrza. This is the result of the different character of the development of these boroughs and their great attractiveness for residential and commercial functions, which has sent land prices soaring, caused over-development, and limited transport options. Terrain previously occupied by industrial plants and warehouses has been rejuvenated to convert them to residential and commercial functions.

The Krakow Special Economic Zone has major significance for the city and region. The Zone covers a total area of 298.88 ha and is divided into investment sub-zones of diversified development.

Table 48.
Value of Turnover in Warehouse & Manufacturing Facilities

	2006 (I-XII)	2006 (I-IX)	2007 (I-IX)	Change*
Krowodrza	PLN 7,521,650	PLN 6,966,900	PLN 28,386,400	407%
Śródmieście	PLN 107,735,890	PLN 74,503,190	PLN 66,488,999	89%
Nowa Huta	PLN 86,337,673	PLN 52,460,083	PLN 10,996,604	21%
Podgórze	PLN 144,530,037	PLN 91,860,825	PLN 67,718,582	73.7%

Source: Institute of Analysis The Real Estate Market Monitor – mrn.pl
**Change – previous year analogical period = 100 percent)*

The years 2006 and 2007 did not record any spectacular transactions in the warehouse facilities segment. Among the most interesting contracts in 2007 was the sale of a warehouse facility in Płaszowo (floor space 5,600 sq m) and a complex in Rybitwy (floor space 5,200 sq m).

Due to a very meagre supply of investment space, the facilities sold and offered for sale consist mainly of older buildings.

According to estimations, some 28,000 sq m of warehouse properties were available to let in 2007. The average rental for warehouse space was PLN 20/sq m. At the same time, the selling price per sq. m of facilities in good and excellent technical conditions was PLN 3,500, which yields a 6 percent annual return on capital.

Analysing the warehouse market in Krakow it should be remembered that the area around the city, although formally located in other communes, plays a complementary function for Krakow. These regions include:

north-west of Krakow
– Modlniczka and Balice (with the advantages of excellent communication junctions and proximity to the airport),

south-west of Krakow
– Skawina (for a number of years an investment zone has been in development in that region offering about 180 ha of land),

south-east of Krakow
– Niepołomice (sub-zone of the Krakow Special Economic Zone).

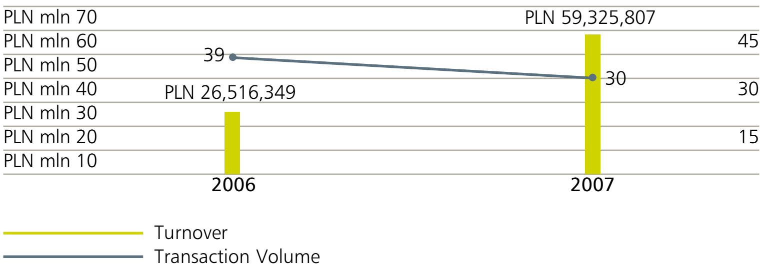
The advantages of these locations are: easy access due to excellent road networks (in the vicinity of the Krakow Ring Road near communication junctions), a greater supply of land (resulting from the fact that these communes have up-to-date zoning plans) and lower prices than in Krakow. Within the Modlniczka borders (in the neighbourhood of the Ring Road) an international company is planning to build the largest logistics centre in the region of almost 158,000 sq m. In 2007 demand grew significantly for these newly-developed concentrations of industrial and logistics investment, which is reflected in the substantial growth of the volume of sales of warehouse & manufacturing facilities.

Table 49.
Turnover in Warehouse & Manufacturing Facilities

	2006 (I-XII)	2006 (I-IX)	2007 (I-IX)	Change*
Krowodrza	8	7	7	100%
Śródmieście	14	10	3	30%
Nowa Huta	24	22	11	50%
Podgórze	44	43	26	60.5%

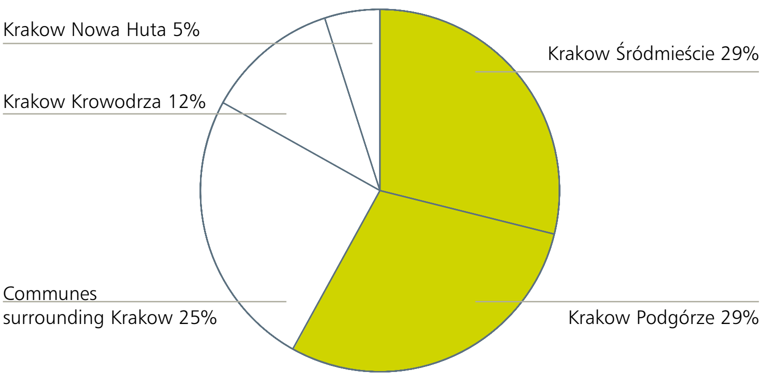
Source: Institute of Analysis The Real Estate Market Monitor – mrn.pl
**Change – previous year analogical period = 100 percent)*

Chart 13.
Value of Sales of Warehouse & Manufacturing Facilities in the Communes surrounding Krakow



The growing importance of the logistics area around Krakow is reflected in the total value of sales of warehouse and manufacturing structures. In 2007, as much as 25 percent of the capital of logistics market investors was spent on warehouse facilities outside the metropolitan area of Krakow. Two transactions were concluded in Niepołomice and Balice for the sale of warehouse & manufacturing facilities for over PLN 10 million each with a unit price of PLN 2,100/sq m of floor space (in Niepołomice) and PLN 3,350/sq m in Balice.

Chart 14.
Value Analysis of the Sales of Warehouse & Manufacturing Buildings in 2007 – by Territories



Conclusions / Trends

- In Krakow itself no major changes have been recorded in the logistics market over the past two years; however, the city's attractive location, network of transit roads, intensive development activities at the airport and large consumer market are factors stimulating demand for prime warehouse space.

- In relation to the rest of the country, the capital of Małopolska is spoken of as a developing market in the logistics sector. At the same time, demand for such investments is being recorded. It confirms the correctness of the approach adopted in the commune planning policy, which is aimed at including areas for logistics functions in the zoning plans.

- Interest in the regions around Krakow is expected to grow (especially in the western, south-western and southern regions). Purchases of large tracts to be apportioned for logistics centres have already been recorded, not only in the above-mentioned Modlniczka but also in Skawina, Niepołomice and Balice regions.

7.

Office Space

The popularity of Krakow among foreign investors has been increasing. The city offers well-trained personnel, a scientific-research base, attractive employment costs and advantages derived from the Special Economic Zone, in which investors may enjoy tax exemption. This situation generates demand for modern office space.

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In Krakow large business parks are located outside the very centre. Take as examples Buma Square Business Park, situated directly behind Rondo Mateczne on the exit towards Zakopane, and Krakow Business Park (KBP) located in Zabierzowo at the city's western borders and offering excellent access to the A4 motorway which connects, among others, Krakow, Katowice and Wrocław. Modern class A office buildings are not constructed in the Old Town. Centrum Biurowe Lubicz is the closest office centre to the downtown offering class A office space.

The current stock of office space for let in Krakow is nearly 200,000 sq m. An additional 40,000 sq m was delivered in 2007 with Globe Trade Center completing the Newton building, further stages of the Krakow Business Park investment in Zabierzowo were completed, the Rondo Business Park was constructed by the Buma Company, and the Wielicka 72 facility was completed by MIX Nieruchomości. 2008 will see a further 40,000 sq m of prime office space delivered. Major projects to be made available for use in 2008 are: Edison –

Table 50.
Office Space Purchase Prices

Current Average Prices of Office Buildings in 2007(PLN/sq m of floor space)

Location	Price
Stare Miasto / Śródmieście	6,000-8,000
Outside City Centre	3,000-6,000

Current Average Prices of Office Units in 2007(PLN/sq m of floor space)

Location	Price
Stare Miasto / Śródmieście	7,000-12,000
Outside City Centre	4,000-6,000

Source: Ober-Haus Nieruchomości

the third building in Armii Krajowej Street to be constructed by GTC (10,300 sq m), Kazimierz Office Centre, also by GTC (12, 600 sq m) and further stages of KBP.

Rentals in 2007 went slightly up. Class A rental ranged from PLN 50 to 65/sq m (EUR 14-18) per month. Class B space outside the downtown was leased for PLN 40 to 54/sq m (EUR 11-15), and in the Old Town from PLN 58 to 72/sq m (EUR 16-20). Service charges, depending on the building standard, were from PLN 7 to 22/sq m (EUR 2-6).

Major Office Facilities:
CB Lubicz – class A office building, situated in downtown Krakow at Lubicz Street 23 (at the junction of Lubicz and Rakowicka streets), prime quality standard. 6-storey building with two-level underground parking lot, offering 11,800 sq m of prime quality office space. Anchor tenants: International Paper, PricewaterhouseCoopers, Capgemini, Fortis Bank.
Buma Square – modern, multi-function facilities located in south Krakow in Wadowicka Street (in direct vicinity of Mateczny Roundabout, towards Zakopane). The complex has 36,000 sq m of space which is presently fully occupied, with the following anchor tenants: Motorola, Tesco, BZ WBK, Provident, Electrolux, Slovnaft and Capgemini.
Euromarket – office building offering 12,000 sq m of space, located in the west part of Krakow in Jasnogórska Street 1. The building is fully occupied, with anchor tenants OPEL, BP and Fortis Bank.
Galileo – modern building offering 10,300 sq m, delivered by GTC as part of an office building complex in the west part of Krakow in Armii Krajowej Street (at the junction of Przybyszewskiego Street). The building is 100 percent leased by IBM Consulting, Raiffeisen Bank, KPMG, and Lotos Group.
Newton – the second building in Armii Krajowej Street delivered by GTC. The lettable area of 10,300 sq m is leased by anchor tenants IBM, Deloitte, Fortis and Hewitt.
Cracovia Business Center – one of the first cutting-edge buildings in Krakow located in Pokoju Alley (at Grzegórzeckie Roundabout); it is the tallest building in Krakow. Most of the 14,000 sq m of offered space is leased by Bank Pekao S.A.
Kraków Business Park Zabierzów (KBP Zabierzów) – located in Zabierzowo (Krakowska Street 280) at the western border of Krakow near the A4 motorway and Balice airport. Office space is about 30,000 sq. m and is fully occupied, with Shell, Delphi and UBS as anchor tenants.

Criteria for classification of a building as class A facility are as follows: best location in a given area, good road access and availability of mass transit, prime quality finishing and technical service, air conditioning, ceiling height (min. 2.70 m), presence of "open space", separate wiring structures for telephone, electrical lines, and Internet connection, state-of-the-art lifts and others. A guarded parking lot with places for tenants and an appropriate number of spaces, which differs depending on the building's location, is another important condition. For buildings near the downtown, the ratio of spaces to surface area is 1/90 sq m but outside downtown, the ratio dwindles to 1/25 sq m (with exceptions allowed).

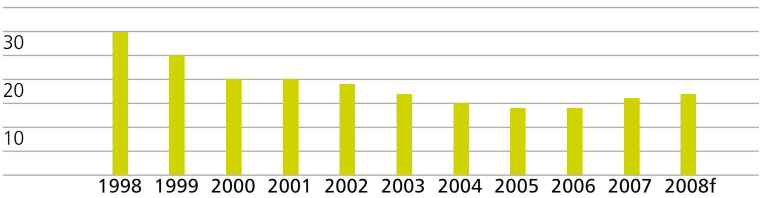
Class B is close to class A, but does not comply with all class A conditions, specifically: finishing quality, full air conditioning or technical service. Class B+ facilities sometimes comply with all class A requirements except location.

Table 51.
Office Space Rentals (in EUR)
Average Office Space Rental in 2007 (sq m/month)

Location	Price
Old Town class B	EUR 16-20
Outside the downtown class A	EUR 14-18
Outside the downtown class B	EUR 11-15

Source: Ober-Haus Real Estate

Chart 15.
Average Rental Price per 1 sq m of Class A Office Space (in EUR)



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Rondo Business Park – investment by Buma Group, located at Polsad Roundabout (junction of Lublańska and Bora-Komorowskiego streets), offers class A office space. The investment is being executed in two stages: 1st stage 9,400 sq m – completed in April 2007 and 2nd stage 8,000 sq m – delivery scheduled for June 2008. The first stage is leased in its entirety by Capgemini.

Office Centres under Construction and in the Planning Stage

CB Kazimierz – the latest GTC offer with an outstanding location in Podgórska Street, in the immediate neighbourhood of Galeria Kazimierz and the Vistula Boulevards; 12,600 sq m of cutting-edge office space with a two-level underground parking lot to be delivered in Q2 2009 (additionally, there will be on the building's ground floor 2,700 sq m of retail space).

Edison – The third building to be deilvered by GTC on Armii Krajowej Street after Galileo and Newton. 11-storey office building with 10,000 sq m of high-class space with 125 parking places, to be completed in the spring 2008.

Pascal – the fourth office building delivered by GTC, located at the junction of Lea and Przybyszewskiego streets. 5,200 sq m of top-class office space with underground parking lot scheduled for 2009.

Galeria Kazimierz Office – 2,000 sq. m of Class A office space as a continuation of the Galeria Kazimierz retail complex. The facility will be delivered for use in the spring of 2008.

Awatar – a new office building to be delivered by Echo Development with a completion date set for the end of 2009; 12,000 sq m with underground parking lot will be erected in Lea Street (junction with Armii Krajowej Street) and has already been 100-percent leased by Fortis Bank.

M65 Meduza – Class A office building at Mogilska Street 65 to be delivered by GD&K Group. Completion date scheduled for the end of 2008. The building offers 4,600 sq m of office space.

Onyx – 6,000 sq m of Class B+ to be delivered by Buma Group at Powstańców Śląskich Street 26 by the end of October 2008.

Wielicka 72 – the second stage of the MIX Nieruchomości investment at Wielicka Street 72 with 3,000 sq m to let; to be delivered for use at the end of 2008.

Mosiężnicza 1 – commercial real estate with 1,625 sq m of floor space to be completed in Q1 2009. The high-standard facility in the vicinity of the Regional Court, Appellate Court and Regional Prosecutor's Office will provide broad development possibilities for legal, bank, consulting and many other offices.

Diamante Plaza – Aldesa Polska (Aldesa Group of Spain) investment to be delivered in the rejuvenated Zabłocie area in Dekerta Street. In 2009 the facility will have 10,000 sq m of cutting-edge Class A office and commercial space to let.

Table 52.
The Office Space Market in 2007

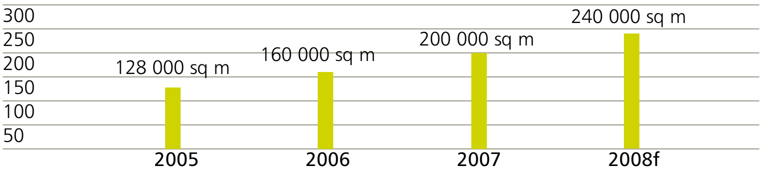
Office Space Market	Area (in sq m)
Office Space Resources (Class A and B)	200,000
Projects under Construction	40,000
Projects in Planning	102,000
Vacancies (sq m and/or percent)	0.30 percent (end of 2007)
Demand (sq m)	50,000

Sources: Ober-Haus Nieruchomości

Bonarka City Center – joint investment to be executed by Trigranit and Immoeast; will comprise a hotel, office and apartment buildings, and hypermarket. The new centre will follow the pattern of Katowickie Silesia City Center and will spread over 19 ha of the former Bonarka Chemical Plant (in Turowicza and Puszkarska streets). The first phase will include retail, services and entertainment. The second stage will deliver four Class A prime quality buildings, with a total lettable area of over 30,000 sq m. This stage of investment, along with a residential segment, will begin at the end of 2008 and be completed before 2012.

The need for modern office space in 2007 totaled 50,000 sq m. Experts from Ober-Haus anticipate that in the years to come demand will grow, and based on analysis of existing trends IT and financial sector companies will be particularly active. The vacancy factor, which in 2007 was almost nil, best proves how the level of demand is outpacing supply. Massive demand is also evidenced by the current situation (similar to 2006) on the office space market with pre-let or built to suite agreements signed with financial sector and IT companies (over 85 percent of the total leased area). This situation leads to the conclusion of transactions at an early stage of investment, during which the entire space is for all intents and purposes fully leased. The upward trend in demand has continued since 2004, but 2006 and 2007 saw unusually rapid increases.

Chart 16.
Supply of Office Space in 2005-2008



f – Forecast for 2008

Conclusions / Trends

- 2007 recorded dynamic growth in supply on the real estate market in Krakow that began in the previous year. Completion of new projects, both single buildings as well as large-format business parks, has been soaring.
- Over the next three years, the supply of prime office space (class A and B) will be almost 0.5 million sq m.
- According to Ober-Haus, the office space market has been booming and further development of this sector is anticipated on the Krakow market. Among the factors stimulating growth are: attractive geographical location of the city (at the junction of north-south and east-west routes), road network access (motorway A4, airport), advantages derived from the Krakow Special Economic Zone and comprehensive university and research & development base, as well as potential of a well-trained workforce (some 200,000 students at Krakow universities), which stimulates investment flow into new projects for technologically advanced sectors of the economy.

8. Hotel Market

Currently, Krakow has approximately 35,000 beds in 350 hotel facilities. Of that number there are 111 hotels with 12,000 beds.

I. Supply – Tourist Accommodation

According to the figures provided by the City of Krakow Office of Tourism, Krakow has over 350 accommodation facilities with about 35,000 beds. The figure includes 111 hotels with 11,688 beds. Among 125 formally rated facilities in Krakow, apart from hotels there is one motel, seven guest houses, two holiday houses, three camping sites and two youth hostels.

Most of the lodgings are in various kinds of facilities that are not subject to rating. According to Krakow Municipality records which account for other facilities providing hotel services, Krakow has 277 of such facilities (including 16 seasonal accommodations) with 8,450 beds. Among them there are over 70 hostels with an estimated 2,500 beds, guest rooms, private homes and apartments.

II. Hotel Market

Hotels account for over 84 percent of categorised facilities in Krakow. Three-star hotels have the largest market share in which, taking into consideration the number of beds, they represent over 43 percent of the market in almost 60 percent of facilities. The proportion of nights of stay sold exceeds 50 percent, reflecting the predominance of these facilities on the market.

Table 53.
Hotels in Krakow

	2003	2004	2005	2006	2007(1)	Promises 2008
Five-star hotels	–	3	4	6	6	–
Four-star hotels	8	8	7	7	11	2
Three-star hotels	39	44	50	53	64	1
Two-star hotels	13	17	18	20	23	2
One-star hotels	7	6	6	6	7	1

Source: Marshal's Office of the Małopolskie Voivodship
(1) Figures from February 2008
promises – promise to assign the rating, facilities under construction or hotel upgrade

Recent years have seen a dynamic upsurge in the sector of business customers and rich tourists (five- and four-star hotels), which has been reflected in the construction of new high-rating facilities or renovation of existing ones. Six five-star hotels have opened in Krakow over the last three years (2004 – three hotels, 2005 – four hotels, 2006 – six hotels) being new or renovated facilities. An upsurge of four-star hotels has also been noticed – there are currently 11 of them.

All in all, five- and four-star hotels have over 30 percent of beds and over 15 percent of market share.

Beds in two-star hotels account for 21 percent of the total number of hotel beds. Two-star facilities offer widely varying standards.

Krakow is Poland's leader in a number of hotel facilities. Hotels are mainly concentrated in the historic centre of the city, especially in the vicinity of Planty and Kazimierz. Operating hotels are mainly located in historic, renovated and converted tenements.

According to the data provided by the Małopolska Tourist Organisation, Krakow's hotel offer is strongly diversified: 83 percent of hotel properties have restaurants, 82 percent have conference facilities, 73 percent have recreation facilities, and 89 percent have parking lots with 48 having parking for coaches. Sauna is available in 26 hotels, fitness in 12, swimming pool in 11, gym in 9, solarium in 7, jacuzzi in 5. Still, judging these figures in terms of the total number of hotels, the offer falls short of demand. 93 percent of facilities honor credit and debit cards, 84 percent allow pets. Over 67 percent of hotel accommodation is fit to be used by disabled guests.

Hotel prices in Krakow have been soaring over the last three years, and the diversity of the offer has increased in kind.

The hotel's category is not the only element determining price; location is also very important. Facilities situated near the downtown, despite traffic restrictions in the Planty area and crowded streets in Śródmieście, are more expensive than equally well-equipped high-rated hotels located on the city's outskirts.

III. Hostel Market

Analysis of offers on the HostelWorld.com portal, considered the major reservation portal worldwide for this hostel category, shows that at the beginning of November in 2007, some of 115 hostels were operating in Poland with 72 (63 percent) in Krakow, 14 in Warsaw and 10 in Wrocław.

Table 54.
Accommodation in Hotels (figures from February 2008)

Category	Number of Hotels	Number of Beds
one-star	7	667
two-star	23	2,453
three-star	64	5,052
four-star	11	1,953
five-star	6	1,563
Total:	111	11,688

Source: Marshal's Office of the Małopolskie Voivodship

Even if we take into consideration the fact that several dozen facilities regarded as hostels operating in Poland have not been listed on the portal, Krakow is the nation's indisputed hotel and hostel leader. This position will remain secure for some time although the number of this kind of facilities may be reduced in the coming years. Experts of the industry publication *Hotelarz* (in an article in the November 2007 issue) maintain that, over the last few years, the supply of hostels has exceeded demand given the total number of visitors coming to the city, and specifically the kind of tourists that would like to stay overnight in this kind of facility.

The figures on internet portals that allow us to accurately assess the number of hostels show that the largest number of such facilities is in London, Prague and Budapest. Krakow ranks fourth, with Rome fifth. Comparing the number of tourists visiting these cities every year, the number of hostels in Krakow is disproportionately high. On the other hand, hostels in Krakow enjoy an excellent reputation and offer prime quality in comparison to international standards. This is confirmed by hostel assessments placed on the HostelWorld. com portal awarding the best average rating to Krakow. Rating for Krakow's facilities range from 70 to 98 percent of possible rating points, with a significant majority obtaining more than 80 percent. In October 2007, Ars Hostel won the monthly rating contest, which demonstrates the leading position of Krakow's facilities among European cities in this listing. Additionally, in January 2008, the Krakow Flamingo hostel was recognised in polls conducted among tourists worldwide on Hostelword. com website as the world's best hostel.

Tourists prefer double or triple private rooms and comfortable access to bathrooms. The current trends show the need to have bathrooms for every unit offered. Public areas, Internet and TV are very important in the overall rating.

In 2007, occupancy in the peak season was about 80 percent and much lower in the off-season (winter, late autumn). It compels the facility owners to receive school package tours or even to organise "stag nights". The difficult situation on the hostel market is evidenced by the many facilities for sale or even being closed down. Bed prices have dropped in the cheapest hostels to PLN 25 per night, whereas three years ago they were PLN 55 in a ten-person room. Top prices reach a maximum of PLN 60 but in most cases, beds are available at about PLN 50. An ongoing upgrade in hostel standards has resulted in competition with one- and two-star hotels. Hostels with large rooms for many people compete with youth hostels and private lodgings.

Table 55.
Average Hotel Prices in 2007 – High Season and Off-Season at the Beginning of 2008 (Internet)

	5*	4*	3*	2*
high season	Sympozjum PLN 572 (480)	Orient PLN 300	City SM PLN 249 (224)	Krakus PLN 230(195)
	Sheraton PLN 888	Copernicus PLN 850	Wentzl PLN 700 (660)	
off-season	Sheraton PLN 440	Copernicus PLN 425	Express by Holiday Inn PLN 106	Krakus PLN 108
	Crown Piast PLN 144	Novotel Bronowice PLN 156	Wentzl PLN 278	System POP PLN 58

Source: Analysis performed by the Institute of Analysis, The Real Estate Monitor – mrn.pl

Table 56.
Hotels Opened in Krakow (2007/2008)

	Standard
Wawel Hotel in Poselska Steet	three-star
Farmona Business & SPA Hotel	three-star
Major Hotel	three-star
Ascot Hotel	three-star
Kazimierz II Hotel	three-star
Tyniecki Hotel	three-star
Teresina Hotel and Restaurant	two-star
Pod Kamykiem Hotel	
Junior Krakus Hotel	one-star

Source: Marshal's Office of the Małopolskie Voivodship

Krakow also has a few facilities, the so-called aparthotels, operating in a manner similar to hostels, but their standard is closer to that of higher-class hotels.

IV. Other Non-Categorised Facilities

Guest rooms, private lodgings, apartments and student hostels are other non-categorised facilities. Prices in such facilities are even more stratified and range from PLN 40 (student hostel of the Mining and Metallurgical Academy) up to PLN 546 (Kazimierz's Secret Apartments – German Apartment).

V. Investment Market

In Poland, for every 1,000 citizens there are 4 beds, in Slovakia 10, in Hungary 15 and in Austria 70.

According to a WGN Real Estate report, prices for hotel and bed-and-breakfast properties have gone up nationally over the last year (from July 2006 to July 2007) by 17 percent on average, which is the lowest percentage increase on the real estate market.

Developing a new hotel in Krakow involves the need to consider historical context when erecting new buildings while dealing with historical properties raising complicated technical and conservation issues. Historic tenements within the Old Town are converted into hotels/boutiques safeguarding, with reverence, historic elements of the buildings to render a unique atmosphere with interior decoration and all facilities required for assignment to a high rating category.

Leaders in the hotel branch seeking areas close to the downtown are attracted to Krakow (e.g. Hilton).

Student hostels are being converted into hotels (Piast and Żaczek belong to the two-star category). Also, in the city outskirts, former accommodations for employees are being converted into one- and two-star hotels.

An alternative solution to building new hotels is the takeover of existing ones or expansion and refurbishment of these facilities into higher category properties. Simultaneously, hotel construction is accompanied by conversion of flats into hostels and apartments. The standard of these properties can differ, but is usually high.

Hotel investment requires substantial outlays: from PLN 90,000 per room in a one-star hotel facility and from PLN 600,000/per room in a five-star facility (this amount includes land purchase, construction and equipment). According to analyses, a return on hotel investment in Krakow takes about six years. Net profitability for Krakow is about 10-12 percent (in other parts of Poland – eight to nine percent).

According to the data supplied by the Krakow Municipality Architecture and City Planning Department, some 36 decisions regarding the permit on the conditions of land development and 24 building permits for development of the hotel facilities were issued in 2007 (comparing to 30 regarding the permits on the conditions of land development and 18 building permits issued in 2006).

The above data concern only hotel facilities, not to mention decisions for mixed-use developments, comprising for instance, hotel and residential apartments. Figures do not profile the whole issue as they do not take into consideration the conversion of flats into apartments (an administrative decision is not required in such cases; an investor reports only the refurbishment and registers the facility in the Krakow Municipality Register before its opening).

Hotel Investments in Progress and in Planning

Hotel Kościuszko – four-star rating promise – Papiernicza Street in the region of Opolska Street. Hotel opening scheduled for March 2008, 11 twin-bed rooms, 14 double rooms, restaurant, and conference room with back-up facilities. The hotel is being developed in a historic two-level manor house with 500 sq m of floor space, being part of the palace-park complex of Białoprądnicki Manor (former summer residence of Krakow bishops). Kościuszko will be the 14th four-star hotel in Krakow and the 5th property in the Donimirski hotel chain.

Hotel Best Western Premier Hotel Kraków – four-star rating promise under construction in Opolska Street. Hotel opening scheduled for summer 2008, cost of the project PLN 60.95 million. Modern facility with plans for 170 rooms, four suites and a spa centre.

The Ośrodek Rekreacji i Wypoczynku "Nad Zalewem" Company is planning to build a hotel complex in a "middle ages" style on the shore of the Kryspinów artificial lake. The plans provide for initial construction of a hotel with roughly 90 rooms, then three restaurants to accommodate a total of 350 guests. Next to come will be cottages for 45 tourists. A complex named Gród Kraka with a spa hotel for a further 200 beds will be delivered in the second stage of the project.

Park Inn 3*+ (Rezidor SAS brand) – a six-level hotel to be built close to the Congress Centre at Grunwaldzki Roundabout; completion of the project scheduled for Q1 2009. Planned investment budget approximately EUR 26 million.

Preliminaries for the first **Hilton** project in Krakow.

Conclusions / Trends

- The next four years will see an upsurge in investments in all sectors of the hotel market and especially in the sector of four- and five-star hotels as well as in three-star facilities, which results from the high rate of return from investment in this sector. The upcoming UEFA Euro 2012 is another factor influencing the development of the hospitality industry with forecasts predicting the development of the entire region (especially within an area of up to 50 km from Krakow).
- An upsurge in turnover on the hotel and related properties' market is expected. Hotel facilities and hotels will be available for purchase (the sale of hotels often means the sale of the entire organisation, not only the property). An upsurge in demand for properties to be converted into hotel functions has also been noted.

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Autorzy Raportu - Członkowie Instytutu MRN.pl:

Krzysztof Bartuś – rynek kamienic
Jarosław Czerski – rynek powierzchni handlowych
Władysław Egner – rynek domów w Krakowie
Maciej Grabowski – rynek gruntów w Krakowie
Wojciech Kobierski – rynek transakcyjny mieszkań
Piotr Krochmal – rynek deweloperski domów
Alicja Malczewska – rynek gruntów pod Krakowem
Piotr Mika – rynek hotelowy, rynek domów w Krakowie
Maria Noworól – rynek hotelowy
Małgorzata Petry-Węcławowicz – rynek transakcyjny mieszkań
Jarosław Strzeszyński – rynek gruntów w Krakowie
Gabriela Surowiec – rynek gruntów pod Krakowem
Dorota Włodarczyk – rynek domów pod Krakowem
Jarosław Zygmunt – rynek powierzchni logistycznych
Robert Zygmunt – rynek powierzchni handlowych

Instytut Analiz
Monitor Rynku Nieruchomości

30-134 Kraków, ul. Zarzecze 114a
tel. +48 12 378 31 30, fax +48 12 378 31 29
e-mail: zarzad@mrn.pl

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ul. Mazowiecka 21, 30-019 Kraków
tel: +48 12 623 76 95
e-mail: info@dominium.pl
www.dominium.pl

Authors:

Krakow Real Estate Service dominium.pl
21 Mazowiecka str, 30-019 Krakow
tel: +48 12 623 76 95
e-mail: info@dominium.pl www.dominium.pl

Real Estate Market Monitor mrn.pl Analyses Institute
114a Zarzecze str, 30-134 Krakow
tel: +48 12 378 31 30; fax: +48 12 378 31 29
e-mail: zarzad@mrn.pl www.mrn.pl
Krzysztof Bartuś, Jarosław Czerski, Władysław Egner,
Małgorzata Petry-Węcławowicz, Maciej Grabowski, Wojciech Kobierski,
Piotr Krochmal, Alicja Malczewska, Piotr Mika, Maria Noworól, Dorota Włodarczyk,
Gabriela Surowiec, Jarosław Strzeszyński, Jarosław Zygmunt, Robert Zygmunt

Ober-Haus
10 Sławkowska str, 31-014 Krakow
tel: +48 12 428 17 00, fax: +48 12 428 19 00
e-mail: krakow@ober-haus.com www.ober-haus.pl

Translation: busy b translations
Photo: Marcin Gajownik, Konrad Glos
Graphic Design: Konrad Glos
Printed by: GREG, Gliwice

The Municipality of Krakow
City Strategy and Development Department
e-mail: sr.umk@um.krakow.pl

Krakow 2008