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Business & Economy

Krakow Real Estate Market

2010

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Prices

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

Measures

Used in Poland

1 ar =100 sqm = 0.01 hectare (ha)

1 hectare = 10 000 sqm = 100 ars (ar)

Used in English speaking countries

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

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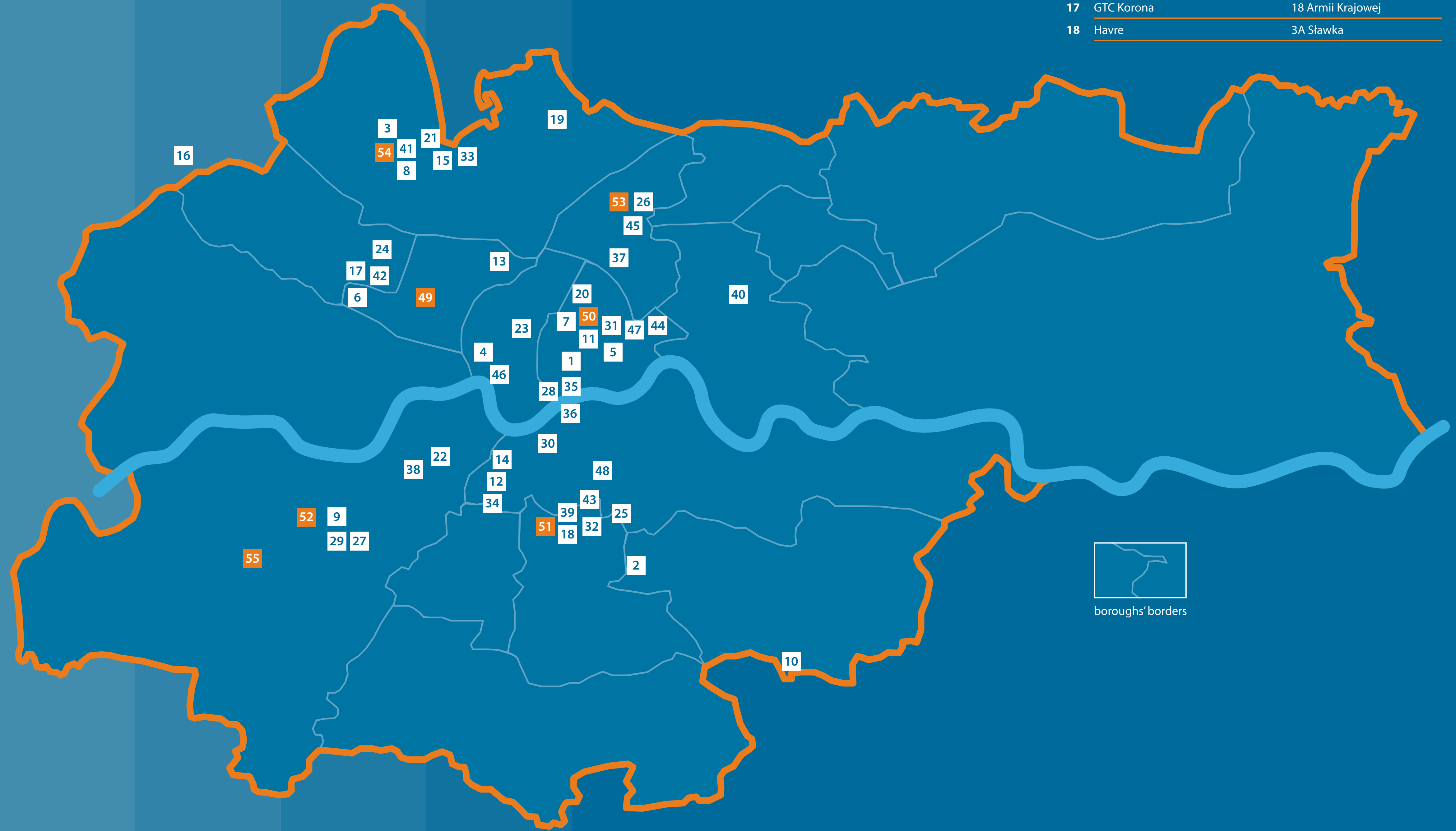

boroughs' borders

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Case study based on data received from Colliers International

ADMINISTRATIVE BOROUGHS

Area	Number	Name
		Current Status
Śródmieście	I	Old Town
	II	Grzegórzki
	III	Prądnik Czerwony
Krowodrza	IV	Prądnik Biały
	V	Krowodrza
	VI	Bronowice
	VII	Zwierzyniec
Podgórze	VIII	Dębniki
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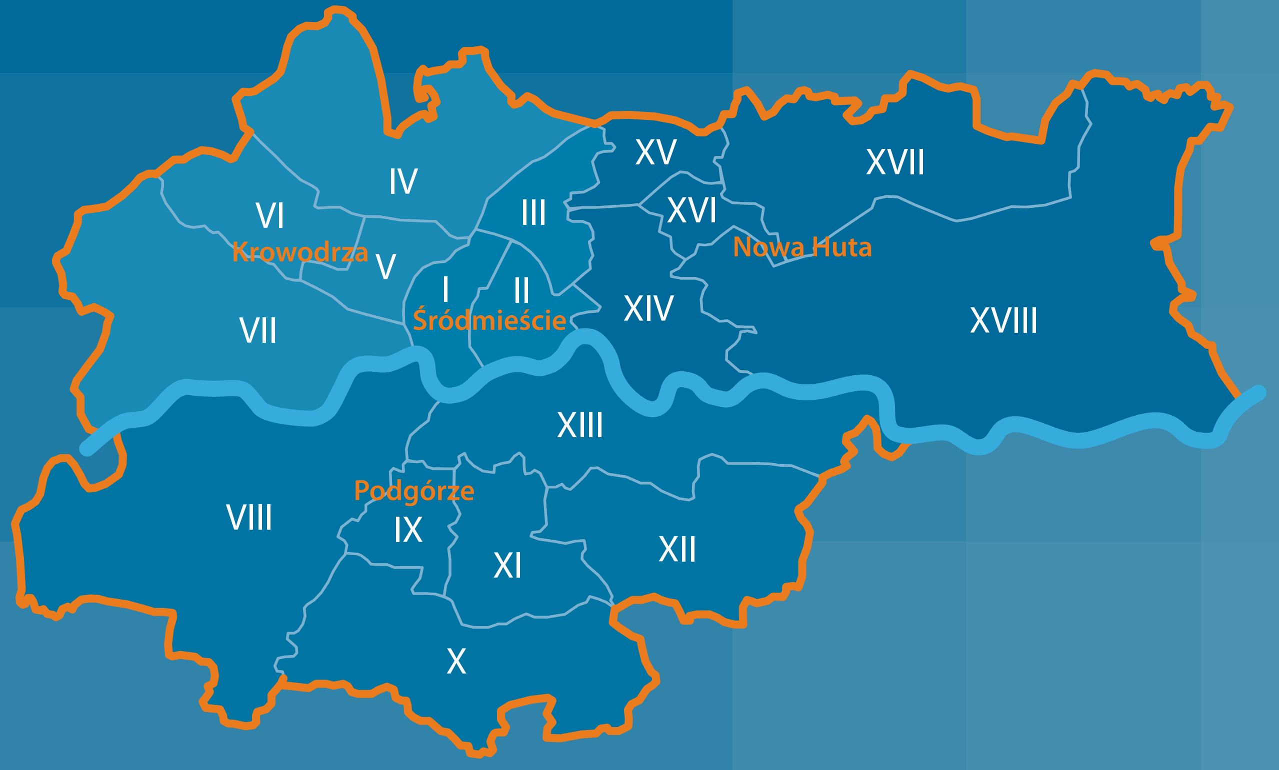
	XVII	Wzgórza Krzesławickie
	XVIII	Nowa Huta



Dear Sirs,

According to the Financial Times' report (European Cities and Regions of the Future of 2009/2010), Krakow is sixth on the list of the most economically attractive Eastern European cities. The reasons why Krakow was chosen as the target of direct foreign investments include demographic and scientific potential of our city, accessibility of well-educated, qualified personnel, business-friendly infrastructure and environment, attractive location and last but not least, the special spirit of Krakow – the historic capital city of Poland with its monuments and centuries-old culture.

All the above factors also contribute to the dynamic development of the property market. Together with our publishing house's partner – the Colliers International company – we present to you an analysis of changes which took place on the market of retail space, including office, storage, commercial and hotel space in our city in 2010. Thanks to the fact that the structure of the study has been similar over the last couple of years, the data can be compared within the space of these years.

I would like to invite you to read the report which is not only a source of knowledge concerning the retail market, but also a guide to Krakow investments.

Monika Piątkowska

Plenipotentiary for the Krakow Brand
Director of the City Strategy and Development Department
Municipality of Krakow

I. About Krakow

Attractive location

Krakow is the second biggest city in Poland and the capital city of the Małopolska region. It is situated around 300 km south of Warsaw at the intersection of important transport routes. Roads and railway routes running in the vicinity of Krakow connect the Baltic Sea with the south of Europe (the Gdansk – Budapest road) as well as the Eastern Europe with the Western Europe (the Frankfurt – Kyiv road).

The John Paul II International Airport Krakow – Balice is situated near the city. It is one of the biggest airports in Poland providing direct connections from the capital city of Małopolska to cities in Poland (Warsaw, Gdansk, Poznan), Europe (52 airports in 17 countries) and North America (Chicago, New York). In 2010 there were 16 airlines, 9 traditional and 7 low-cost, permanently operating flights from and to the Krakow Airport, the Airport's services also included charter flights.

Demographic potential of the city and the region

In the mid-2010 Krakow had 755,546 inhabitants and a positive birth rate amounting to 1.3‰. At the same time the migration balance was also positive. Krakow is the second biggest city in Poland in terms of population and almost 60% of its inhabitants are young people who are less than 44 years old.

Not only Krakow, but the whole region is characterised by high demographic potential. The suburban area is inhabited by 1,500,000 people and around 8,000,000 people live within a hundred-kilometre radius from the city.

Demography

	2008	2009	Mid-2010
Number of inhabitants	754,624	755,000	755,546
Including: number of women	401,618	402,111	402,375
Birth rate	421	691	236
Migration balance	-62	412	80
Marriages	4,420	4,412	1,248

Source: Statistical Office in Krakow

Scientific potential of Krakow

Krakow – a city of five universities – is one of the most important academic centres in Poland. Over 212,000 people, i.e. 10% of all students in Poland, study in 23 universities and colleges. 13,000 academic teachers, including 1,400 professors are responsible for their education.

Every year over 45,000 students graduate from the Krakow universities and colleges, most of them from the Jagiellonian University, the AGH University of Science and Technology, the Krakow University of Economics and the Krakow University of Technology.

Almost 13% of the Polish academic staff are teachers of the Krakow universities and colleges.

Students and graduates of the Krakow universities and colleges in 2009

School	Full-time and part-time students	Postgraduate and doctoral students	Graduates	Graduates of postgraduate and doctoral studies
Jagiellonian University	44,959	5,617	8,453	2,214
AGH University of Science and Technology	31,846	3,691	4,115	2,696
Krakow University of Economics	20,354	3,542	6,537	2,937
Pedagogical University of Krakow	17,3370	2,946	3,624	1,252
Krakow University of Technology	15,694	1,658	2,366	1,105
University of Agriculture	12,507	688	2,261	248
University School of Physical Education in Krakow	4,531	159	881	139
Academy of Fine Arts	1,178	155	199	52
Krakow Music Academy	641	101	152	41
State Drama School in Krakow	165	8	43	0
Krakow University	15,346	603	2,791	159
The School of Banking and Management in Krakow	7,436	253	1,477	279
Pontifical University of John Paul II	2,760	558	565	163
Jesuit University of Philosophy and Education	3,165	610	831	198
School of Economics and Computer Science	2,800	218	437	214
The Bogdan Jański Academy	1,117	150	247	0
Tischner European University	1,265	398	243	398
Małopolska Higher Vocational School	2,817	0	568	0
Krakow Higher School of Health Promotion	1,391	33	207	30
Polish Open University[1]	2,037	136	408	241
School of Business and Commerce	600	0	150	0
Higher School of Insurance	497	57	121	43
Apeiron Higher School of Public and Individual Safety	no data	no data	no data	no data
Total	**190,443**	**21,572**	**36,676**	**12,409**

[1] Number of students for the whole school, including its branches in Warsaw, Krakow and Legnica

Source: schools

Cooperation of universities and colleges with research and development units, as well as hi-tech companies contributes to establishment of research and development centres in Krakow (Centres for Advanced Technologies, Centres of Excellence, Technology Transfer Centres and Research and Development Centres of companies).

Another example of cooperation between science, business and self-government in our city includes clusters embracing enterprises, universities, research units which, despite the fact that they conduct separate, competing activities, cooperate in certain areas, e.g. they conduct research and development works together. Examples of Krakow clusters include: the Małopolska Information Technologies Cluster, LifeScience Cluster Krakow, E-Klaster – The Małopolska IT Cluster, the Małopolska and Podkarpackie regions Clean Energy Cluster, MINATECH Interregional Cluster of Innovative Technologies, European Games Centre, Krakow Design Zone, INRET Cluster of Culture Industries and Free Time.

Modern economy

The Special Economic Zone sub-zones operating within the city altogether have around 86 ha, including 58 ha of developed land. They offer state aid of a certain range, as well as attractive green land and office space of the highest class to investors. The Special Economic Zone is available to almost all companies operating in the sector of traditional industry and some service sector enterprises, including IT, research and development, accounting and audit, bookkeeping, technical research and analyses as well as call centre companies.

At the moment in Krakow the hi-tech sector as well as the sector of specialised services are developing particularly dynamically. Currently in our city, in the area of the Special Economic Zone, there are around 50 companies of the kind, employing over 16,000 people. Among the above companies the BPO (Business process outsourcing) sector firms are especially important for the Krakow job market.

In the Global Services and Tholons ranking for 2010 Krakow took the first place on the list of ten emerging locations for outsourcing. No other Polish city was included in the ranking.

Special Economic Zone sub-zones in 2009

	Total area (ha)	Developed area (ha)
Krakow Nowa Huta	14.1921	10.4667
Krakow Podgórze	42.6172	33.3379
Krakow City Centre	29.1905	13.9275
Total in Krakow	85.9998	57.7321

Source: Krakow Technology Park

Credit rating

Since 1997 Krakow has been undergoing annual credit rating conducted by an international rating agency Standard and Poor's. In 2008, as the first city in Poland, Krakow improved its credit rating from "BBB+/Positive Outlook" to "A–/Stable Outlook". The city kept its A– credit rating in 2010.

Tourism

The historic centre of Krakow, together with the Wieliczka Salt Mine located in its vicinity, were entered to the first UNESCO World Heritage list in 1978.

The beauty of monuments, the possibility of exploring the city on foot, diversity of restaurants and pubs, artistic events and, above all – the magical atmosphere of Krakow – attract many tourists from Poland and abroad. The city belongs to one of the most often visited places in Poland and in Europe.

In 2010 Krakow was visited by 8,150,000 people, including 2,100,000 foreign guests. Most of the foreigners coming to Krakow are citizens of Great Britain, Germany, Italy, France, Spain and the USA.

II. Office Market

General overview

Krakow has the second largest office market in Poland, after Warsaw. At the end of 2010 the city had 388,030 sqm of modern office space[1], most of which was completed during the last four years (2007–2010). The economic crisis had a negative impact on the real estate market. In 2009 drops both in demand for office space and rental rates were recorded and availability of space increased in almost all locations. However, in 2010, in comparison with the previous year the situation improved. New office buildings were completed, construction work on several projects began and demand for space grew. In 2011 a further 55,230 sqm is expected to be completed, which will be the highest new supply among regional cities and will allow Krakow to remain the largest regional office market.

Supply

At the end of 2010 Krakow's total office stock reached 388,030 sqm. In 2010 as much as 54,140 sqm of new office space was delivered to the market. The largest new projects were:

Vinci Office Center	Q1 2010	18,720 sqm
Avatar	Q1 2010	11,000 sqm
Quattro Business Park phase I	Q3 2010	12,000 sqm

Due to Krakow city centre's historical architecture and developments there is a limited amount of modern office premises available. The majority of new office buildings are constructed outside the city centre or even outside the city.

1 All buildings included within this stock are class A or B class buildings, over 1,000 sqm, partially or entirely leasable and offer many or all features expected in modern office facilities.

The largest concentration of modern office space can be identified in the three following locations:

- in the city centre and its fringe (area of Grzegórzeckie and Mogilskie roundabouts),
- in the north-western part of the city (area of Bronowice and Prądnik, part of Armii Krajowej Street and the surroundings of the Ofiar Katynia roundabout),
- in the southern parts of the city – west of Zakopiańska Street, Wadowicka Street and the area along Wielicka and Kamieńskiego streets, and also the developing area of Zabłocie.

It is also worth mentioning here the Czyżyny district, as it is an important area for investment in the Krakow Special Economic Zone, as well as being the location of the Krakow Technological Park, and Zabierzów outside Kraków, where the largest office park is located.

Planned supply

As much as 55,230 sqm of office space is currently under construction to be delivered in 2011.

The largest projects scheduled for delivery in 2011 will be the second phase of the Quattro Business Park (11,800 sqm) by Buma Group, a local developer and two buildings of Bonarka 4 Business (ca. 15,700 sqm) by Trigranit. The completion of the two buildings within B4B, located close to the existing Bonarka shopping gallery, is scheduled for the second quarter of the year, whilst the second building within the Quattro Business Park is planned for completion in the last quarter. A further project under construction by Buma Group is the Green Office building (8,000 sqm), which is expected to be delivered at the turn of the second and third quarter 2011. Other projects scheduled for 2011 include modernisation of the Biprostal building, which will add a further 2,700 sqm in the first quarter and a small project Salony Krakowskie with 1,400 sqm planned to be completed in the second quarter.

The second half of 2011 will see modernisation of the second phase of Biprostal, which will increase the total stock of office space in the third quarter by 4,900 sqm, the next building from Mix Nieruchomości at Jasnogórska Street (7,480 sqm) postponed from 2010 to the last quarter of 2011 and the Excon building which will deliver ca 3,250 sqm also in the last quarter of 2011.

Office buildings planned for 2011

Building	Location	Total office space (sqm)
Biprostal	57 Królewska St	2,700
Salony Krakowskie	Beliny-Prażmowskiego St	1,400
Bonarka 4 Business A	Puszkarska St	7,720
Bonarka 4 Business B	Puszkarska St	7,980
Biprostal 2nd phase	57 Królewska St	4,900
Green Office (build. B)	82 Czerwone Maki St	8,000
Quattro Business Park 2nd phase	25 Bora-Komorowskiego St	11,800
MIX	11 Jasnogórska St	7,480
Excon	65 Babińskiego St	3,250

Source: Colliers International

Demand

Following the drop in market activity in 2009 due to the economic crisis, in 2010 a noticeable improvement was recorded. Strong demand prevented the vacancy rate from increasing too significantly. It is worth mentioning, however, that demand for space was generated mainly by companies, which are already present on the Krakow market. The number of pre-lease agreements increased significantly and the amount of pre-leased space exceeded 30,000 sqm.

Both on a national and international level Krakow remains an important destination for Business Process Offshoring processes. The city has already attracted numerous companies from the BPO sector, including among others: IBM, Capgemini, Shell, State Street, Philip Morris, UBS, Electrolux, Sabre Holdings, Motorola, International Paper, Delphi Automotive, HSBC, Intelenet Global Services and Hewitt Associates.

Companies from the BPO sector are the main driver for demand for office space in Krakow. The main functions of BPO centres located in Krakow are finance and accounting services. Other areas of specialty include technical/IT support, client relationship management, call centres and HR/recruitment. Krakow has the ability to attract higher value-added functions.

The city has been also acknowledged by the R&D sector. Motorola, IBM, Delphi Automotive and Pliva have located their research and development centres here.

In 2010 several new lease agreements were concluded by tenants from this sector. The largest transactions were 10,000 sqm leased by Capgemini in Quattro Business Park and 11,840 sqm leased by Motorola Solutions in Green Office. Both of these deals were pre-lease agreements concluded in schemes realised by Buma Group.

Vacancy

In comparison with the end of 2009, when the vacancy rate stood at 10.2%, the city has experienced an increase in space availability, however the change was not significant, considering the high amount of new supply delivered to the market. In December 2010 the vacancy rate reached 12.3%. Generally, buildings in Krakow are leased to a high extent. It is mainly new buildings delivered in 2009–2010 that offer vacant space and account for over 90% of unleased space.

Rents

At the end of 2010 rental rates were between EUR 13 and 15 per sqm in the majority of existing office buildings which have available space. Some newly delivered offices still have asking rates at the level of EUR 16 per sqm. However, higher availability of space has made some landlords reconsider their leasing strategies, especially those with projects under construction. Currently some of them offer office space starting from EUR 13.5 per sqm.

Krakow office market against other Polish cities

Thanks to the largest new supply among regional cities Krakow managed to maintain its predominance. Second, in terms of the total stock is Wrocław, followed by Tricity and Poznań. Krakow performed exceptionally well in terms of market activity. It is also worth mentioning that among regional markets it had the highest volume of pre-lease agreements. Market activity was lower in other cities, yet better than in 2009. Wrocław was second in terms of tenants' activity and the amount of pre-leased space.

Office market in regional cities as of end 2010

	Total Stock (sqm)	Vacancy rate
Krakow	388,030	12.3%
Wrocław	305,430	4.3%
Tricity	217,060	16.8%
Poznań	191,480	13.9%
Katowice	180,730	22.0%
Łódź	177,750	25.6%

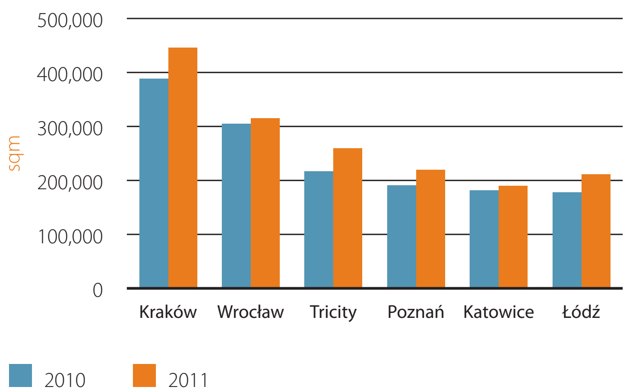
Source: Colliers International

Although demand for space grew in comparison with 2009, vacancy rates increased in the majority of locations. This was by and large caused by new schemes delivered to the market, which in many cases did not manage to secure tenants at the construction stage.

In two regional markets vacancy rates decreased – Łódź and Wrocław. It is worth noting that the former is the location with the highest vacancy level (25.6%) and the latter the lowest (4.3%). In five regional markets vacancy rates exceed 10%.

Rental rates remained at a similar level throughout 2010. Some landlords with buildings with a high amount of unleased space decided to lower their demands. Most asking rents are between EUR 12 and 15 per sqm. The lowest rates are in Łódź and Katowice and are between EUR 12 and 13 per sqm.

Office stock in the largest regional markets 2010 & 2011



Source: Colliers International

Krakow office market in comparison with other CEE cities

A typical characteristic of the CEE office markets is that they are well developed mainly in capital cities. However, regional markets are also growing although at a lower pace. Poland due to its population size is a leading country in this area with numerous regional locations offering high quality office space to lease. Taking into account the number of inhabitants, Krakow (755,000) is comparable to the capital cities such as Riga (706,410) and Vilnius (560,190) rather than to regional cities. Also in terms of the size of office resources Krakow is similar only to these two cities. Other capital cities are characterized by much larger office stock exceeding 1 mln sqm.

The largest office stock in other regional cities is in Brno (280,000 sqm) in the Czech Republic and in Varna (177,600 sqm) in Bulgaria. As we can see they are significantly smaller office markets than in Krakow, and more comparable to such cities like Poznań or Tricity.

The highest rental rates remain in Kiev, Prague and Bucharest. In other cities in the region rents are generally lower than in Krakow.

Among regional cities Krakow is also exceptional in terms of BPO/SSC sector activity. None of the secondary cities in the region has a comparable amount of existing BPO/SSC investments. In 2010 Krakow as the only CEE city led among the Top 10 Emerging Outsourcing Cities in the ranking prepared by Global Services and Tholons.

Office market in selected cities of CEE region

	Total stock (sqm)	**Planned new supply in 2011 (sqm)**	**Vacancy rate Q4 2010**	**Rent rates**
Krakow	388,030	55,230	12.3%	EUR 13–15
Prague	2,700,000	95,000	13.1%	EUR 13–21
Budapest	2,340,000	50,000	25.7%	EUR 10–13
Bratislava	1,367,175	60,000	9.6%	EUR 9–18
Bucharest	1,360,000	150,000	18%	EUR 10–20
Kiev	1,200,000	150,000	14%	EUR 13–28
Riga	365,550	5,690	25.2%	EUR 8–15
Vilnius	335,500	6,300	13%	EUR 9.2–12.2
Brno	280,000	5,000	15%	EUR 10–12
Varna*	177,600	43,000	27%	EUR 10

*data as of H1 2010

Source: Colliers International

III. Industrial Market

General overview

Despite Krakow's attractive location close to important national and European roads and its inclusion in a Special Economic Zone, which incorporates neighbouring municipalities, such as Niepołomice, the city has a rather limited amount of industrial space. At the end of 2010 it stood at 68,000 sqm which makes Krakow one of the smallest industrial markets in Poland. Szczecin follows with almost 42,000 sqm.

Krakow is still a relatively young location which has not fully taken advantage of its potential. One of the major problems that industrial developers have faced in Krakow are issues relating to land ownership, which has prevented them from securing large plots for future industrial schemes.

So far the highest concentration of industrial space has been in Rybitwy, an industrial district, located in the eastern part of the city. However, with the delivery of new warehouses within Goodman's scheme, Modlniczka located to the north-west of Krakow will become another important area with a concentration of industrial space.

Supply

2010 did not see any new completions of industrial schemes in Krakow and thus the total stock remained at the unchanged level of 68,000 sqm, recorded in 2009.

The aforementioned figure includes four industrial schemes: two projects delivered by Biuro Inwestycji Kapitałowych S.A. (BIK), Panattoni's logistics centre located in Skawina and the most recent one, MK Logistic Park.

The first investment which can be classified as a modern industrial scheme in Krakow was built in 2000 by BIK on Albatrosów Street in Rybitwy. It delivered 8,000 sqm of industrial space. BIK's second project, also in the Rybitwy district, followed in 2006 and increased the stock by 11,000 sqm. Both projects were successfully leased.

The third project was realised by Panattoni and entered the market two years later in 2008, adding 16,900 sqm of industrial space. Panattoni Park Krakow I, located in Skawina, raised interest among tenants even at the construction stage when the first unit was pre-leased. Although the new supply initially caused a slight increase in the vacancy rate for Krakow, the project was fully leased within a relatively short time frame.

The fourth investment – MK Logistic Park, located in the vicinity of the BIK Logistic Center Krakow II – has been so far the largest industrial scheme to enter the Krakow market. It added ca. 32,000 sqm in 2009. The project has continued to offer some vacant space to lease and thus vacancy rate has remained over 10% throughout the year.

The stock of industrial space in Kraków

Completion date	Project	Investor	Space
2000	Logistic Center Krakow 1	BIK	8,000
2006	Logistic Center Krakow 2	BIK	11,000
2008	Panattoni Park Krakow	Panattoni	16,900
2009	MK Logistic Park	MK Logistic	32,000

Source: Colliers International

2010 saw construction work begin on two new industrial schemes – ca. 12,000 sqm of industrial space within four warehouses, on Nad Drwiną Street by MARR (Małopolska Regional Development Agency) and almost 14,000 sqm by Goodman in Modlniczka, the first stage of a project which will provide a total of ca. 150,000 sqm. Both investments are planned for the second quarter of 2011.

Goodman plans to start construction works of another warehouse within Cracow Airport Logistics Center in 2011, which will add a further ca. 20,850 sqm of industrial space to the market. Since the first phase raised much interest among tenants it is highly probable that the second phase will soon get underway.

Rents

The Krakow market remains to be one of the most expensive locations offering the highest rental rates after Zone I in Warsaw. As of the end of 2010 effective rents amounted to EUR 3.50–4.50 per sqm. They were, however, slightly lower than at the end of 2009. A gradual supply of new space may result in a downward correction of rents.

Effective rents achieved in Upper Silesia and Wrocław amount to EUR 2.40–2.90 per sqm in the case of the first market, and EUR 2.60–3.00 per sqm in the latter, which combined with a high amount of available space makes these locations highly competitive and thus more attractive.

Demand

In 2010 as much as 18,300 sqm of industrial space was leased, which is almost one quarter lower than in 2009. The average deal size was almost 2,615 sqm. Over 50% of the total volume of agreements constituted pre-lease transactions. Such deals include space preleased by Eurodruk, Farutex and Scot. Each company decided to take a unit of 3,500 sqm in a new investment by Goodman.

Despite the aforementioned tenants, demand for space in the Krakow area is mainly generated by the local market. Nevertheless, some companies which are active on a national level lease industrial space in Krakow in order to be able to conduct their business activity in this region effectively. Due to a currently limited amount of industrial space and close proximity to other locations with a higher amount of space and lower rental rates we do not foresee any major changes in the tenants' structure.

Forecast

In 2011 we will see an increase in industrial resources located in Krakow. If demand for space remains at the current level, this may result in an increase in vacancy rates. Due to higher availability of space rents may experience slight downward corrections.

IV. Retail Market

General overview

At the end of 2010 the total modern retail stock[1] in Krakow stood at 461,670 sqm. No new modern projects were delivered to the market last year.

The market in Krakow, similarly to other major cities in Poland, has been developing since the mid 1990's, when the first large hypermarkets were opened. In the years that followed numerous developers chose Krakow for their projects. The boom years in terms of the amount of new supply delivered were 2001, when M1 (42,000 sqm) and Krakow Plaza (30,970 sqm) were completed; and 2009 which saw delivery of one of the largest shopping centres in Poland – Bonarka (91,000 sqm).

The largest retail projects

Project	Completion date	(GLA, sqm)
Bonarka	2009	91,000
Zakopianka	1998	65,000
Galeria Krakowska	2006	64,300
M1	2001	42,000
Galeria Kazimierz	2005	36,200

Source: Colliers International

The vast majority of the retail stock in Krakow consists of traditional shopping centres. Over 60% of supply is in third and fourth generation shopping centres, which is to say properties characterized by a limited share given to hypermarket, with a large shopping gallery and a food court, as well as an entertainment component and additional functions such as offices. The main objects in this category are: Bonarka, Galeria Kazimierz, Krakow Plaza, Zakopianka and Galeria Krakowska. 25% of the stock is constituted by second generation shopping centres (that is a property with a hypermarket occupying 30–40% of space and a large shopping gallery).

The DIY and home furnishings sectors are well represented (Ikea undergoing extension, Castorama, Praktiker, Obi and Leroy Merlin), whilst factory outlets and retail parks have not entered the local market so far.

High streets

The Old Town in Krakow is a world renowned tourist attraction as well as a destination for high street retailers, mainly on Grodzka, Floriańska and Szewska streets. The mix of history, high footfall and a business ambience make Krakow's high streets very popular for mass market brands such as Benetton, Reserved, Gino Rossi, Vero Moda, Miss Sixty, Sephora and Douglas, to up-market brands such as MaxMara, Pollini, Marlboro Classic, Marella and Swarovski. The Main Square is also home to a branch of the Hard Rock Café chain.

Planned supply

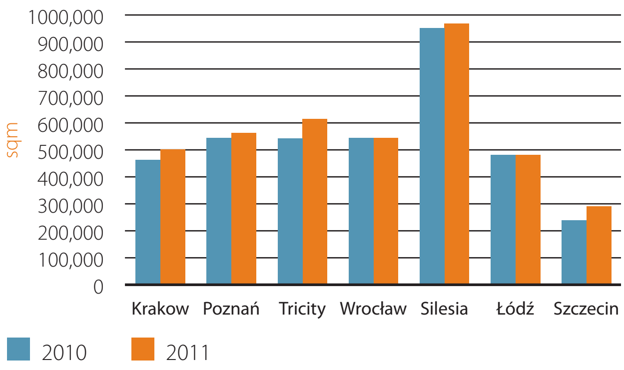
In 2011 as much as 40,330 sqm of new retail space will be delivered to the Krakow market. Spanish developer Neinver, who already has outlets in Wrocław, Warsaw and Poznań, has started the construction of its new project which will consist of two parts: a Factory Outlet Centre and Futura retail park. It will be the first outlet and the first retail park in Krakow. So far there have been only a few shops located in the vicinity of Zakopianka which functioned as a retail park.

In 2012 delivery of the 40,000 sqm Serenada Shopping Centre in northern Krakow is planned by Mayland Real Estate. The beginning of the construction is scheduled for the first quarter of 2011.

Among investments planned for further years is the Auchan shopping centre (60,000 sqm) in Bronowice, planned for 2013.

[1] Modern retail projects over 5,000 sqm GLA, excluding stand alone buildings so called big boxes.

Total retail stock in regional cities



Source: Colliers International

Rent rates

Rental rates for retail space located in high streets vary greatly and depend on location and the quality of leased space. Rental rates recorded on the top Krakow highstreets are among the highest in Poland and can be compared to rents achieved in Warsaw on Trzech Krzyży Square and Nowy Świat street. As of the end of 2010 rents for top retail units of ca. 100 sqm in Floriańska street, reached a range between EUR 75–100 per sqm, with the higher end of the range recorded in close proximity to the Main Square. In Grodzka and Szewska streets rental rates are from EUR 65 to 90 per sqm.

As regards rents in shopping centres, the rates are lower due to the popularity of highstreet locations in Krakow. Rental rates in main shopping galeries for units of ca. 50–60 sqm range between EUR 45–60 per sqm.

Krakow retail market against other Polish cities

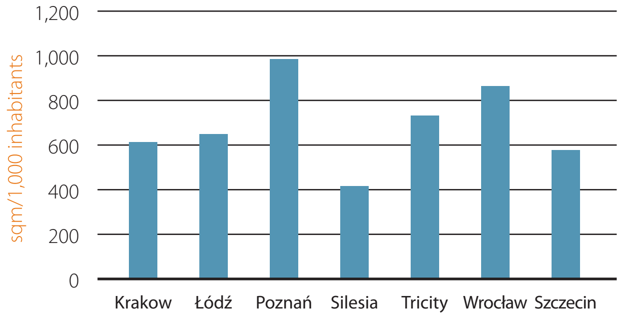
In total, Polish cities have 8.04 mln sqm of modern retail space, almost 65 % of which is concentrated in the eight largest cities.

Due to its demographic potential and purchasing power, the capital remains the major retail location in Poland (1.42 mln sqm). The Silesian agglomeration comes second (952,210 sqm), followed by three cities with almost the same market size: Wrocław (545,470 sqm), Poznań (545,450 sqm) and Tricity (543,040 sqm). Łódź, which thanks to delivery of Port Łódź, increased its stock significantly (482,110 sqm), is the fifth largest market and Krakow with stock totalling 461,670 sqm is in the sixth place in terms of the market size.

The largest new supply in 2010 was delivered in Łódź (67,000 sqm) and Warsaw (37,000 sqm). It seems that in 2011 the largest new supply is planned in Tricity, where as much as 80,000 sqm was under construction at the end of 2010.

In terms of market saturation Poznań and Wrocław are the leaders among large regional cities with, accordingly, 984 sqm per 1,000 inhabitants and 863 per 1,000 inhabitants. The third one is Tricity (ca. 731 sqm per 1,000 inhabitants). In 2009 Krakow recorded a significant increase in market saturation thanks to high levels of new supply. In 2010 a similar situation took place in Łódź, where saturation level reached 649 sqm per 1,000 inhabitants. At the end of 2010 Krakow's saturation level was 612 sqm per 1,000 inhabitants, placing the city fifth among the regional cities in terms of market supply.

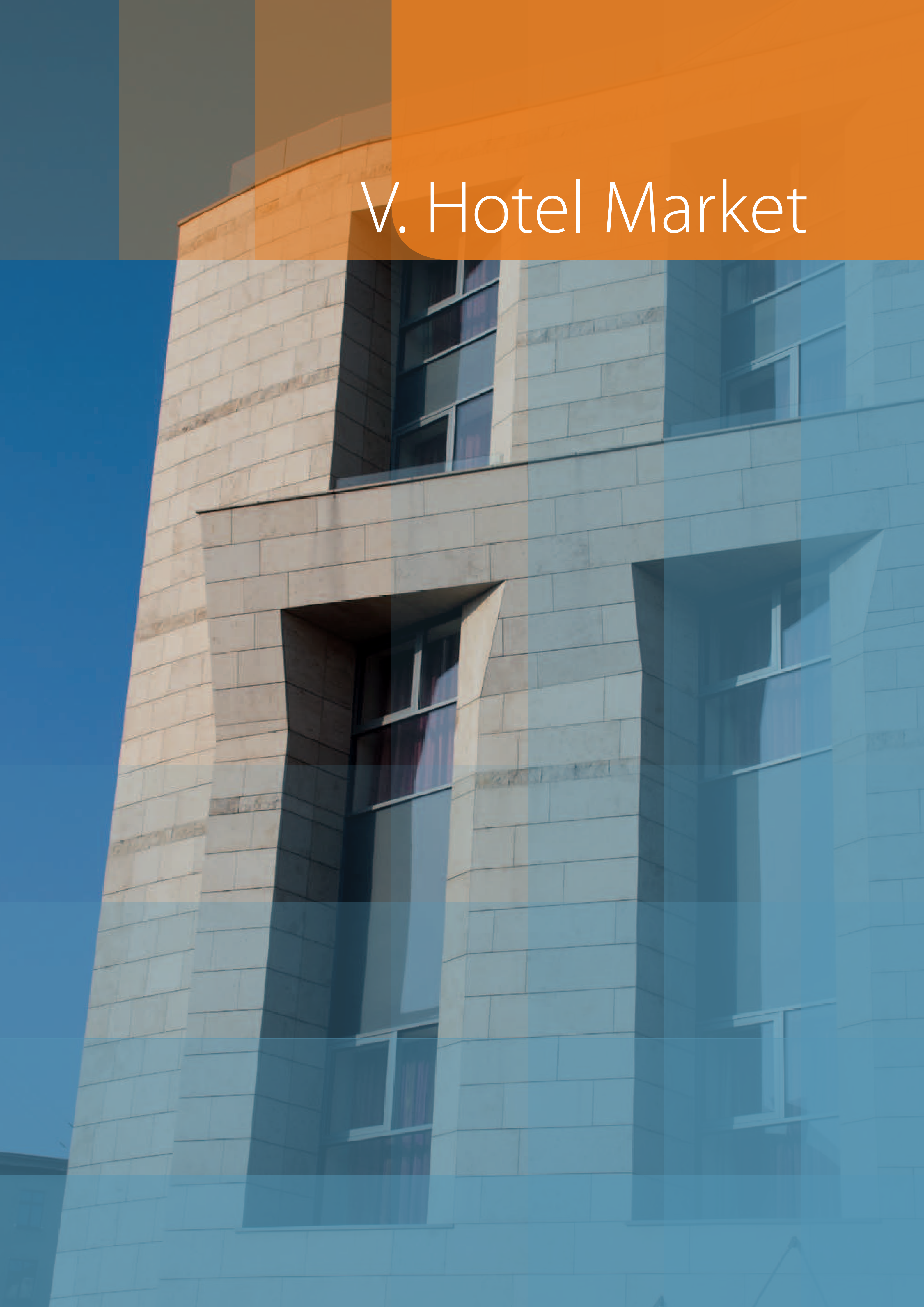
Saturation in regional cities



Source: Colliers International

Prime rent rates in the best shopping centres are similar in Krakow, Wrocław and Poznań and reach EUR 45–60 per sqm. In other major cities prime rents are slightly lower at EUR 35–50 per sqm.

V. Hotel Market



General overview

Among Polish cities Krakow has the widest and the most varied selection of categorised hotels, appealing to different types of travellers. Many belong to international groups such as Starwood (Sheraton), InterContinental Hotels Group (Holiday Inn, Express by Holiday Inn), Accor (Novotel, Etap, Ibis), Best Western International (Best Western Premier), Louvre Hotels (Campanile), Rezidor Hotel Group (Radisson SAS, Park Inn), Qubus, Vienna International Hotels (Andel's, Chopin). However, there are also traditional Polish hotels – e.g. the Grand Hotel, boutique hotels run by the Likus brothers and the Donimirski family, small, intimate tourist-class hotels, as well as hostels, guest houses and private accommodation. The majority of hotels are situated within the historical city centre area, surrounded by the Planty Garden and the popular district of Kazimierz.

The most expensive hotels are located in the very centre of Krakow. Hotels of a lower star category in close proximity to the Main Square are often more expensive than hotels of a higher star category located on the city's outskirts.

After a drop in number of visitors in 2009 the city performed well in 2010. According to Małopolska Organizacja Turystyczna, 8.1 million tourists came to Krakow last year, which is 800,000 more visitors than in the previous year. 74% of visitors were domestic travellers. The branded hotels recorded an average occupancy of ca. 64%, and an ADR (average daily rate) of EUR 67.

The city enjoyed a good summer season. However, in winter a drop in visitor numbers was recorded. Therefore, the majority of hotels decided to lower their rates or provide additional services in order to win more guests.

Krakow attracts leisure, business and conference travellers. The delivery of a congressional centre able to host nearly 2,100 people and scheduled for delivery in 2013 will help to increase the city's share of MICE sector in hotel accommodation.

Another type of tourism which is becoming more popular in the capital of Małopolska, especially among tourists from Italy and Spain, is sacral tourism.

Formally rated hotels and the number of beds and rooms in Krakow as of end 2010

Hotel	Number of hotels	Hotels awaiting confirmation[1]	Number of bed places	Number of rooms
Hotel *****	10	1	1,752	979
Hotel ****	21	3	3,521	1,915
Hotel ***	74	0	6,552	3,633
Hotel **	22	0	2,088	1,016
Hotel *	5	0	576	256
Total	132	4	14,489	7,799

Source: Marshal's Office of the Małopolskie Voivodship and the Hotel Register in Poland, Colliers International

[1] hotels under construction or hotel upgrade; document called promesa

At the end of 2010 there were 132 officially rated hotels of different categories with a total of 14,489 bed places. This number includes 10 five-star hotels, 21 four-star hotels, 74 three-star hotels, 22 two-star hotels and 5 one-star hotels. Due to the economic slowdown hotels previously planned for delivery in 2010 or 2011 were postponed for future years.

Hotels in Krakow classified in 2010

Hotel	Category	Number of rooms
Niebieski Art Hotel&Spa	5*	40
Hotel Stary	5*	53
Swing	4*	144
Unicus	4*	34
Centrum	4*	28
Conrad	3*	98
Maksymilian	3*	21
Platinium	2*	15
Delta	2*	16

Source: Marshal's Office of the Małopolskie Voivodship and Colliers International

Nine hotels were classified in 2010, three of them new openings. A new part of the Art Hotel Niebieski at 3 Flisacka Street was opened. This five-star venue offers 40 rooms, a conference room for up to 120 people, a restaurant for 160 people, a spa and an underground car park. The four-star Hotel Centrum at Jana Pawła II in Nowa Huta with 28 rooms and a 200 sqm conference centre, as well as the three-star Maksymilian Hotel (21 rooms) were also opened.

Furthermore, several changes took place in hotel classification, mainly in the upper end venues.

The Gródek Hotel was upgraded to a five-star property. Two three-star hotels, Amber and Justyna, were also upgraded, to four-star category. Meanwhile the Sympozjum Hotel decided to relinquish one star and became a four-star hotel. Such reclassification gives the hotel the ability to pursue more visitors from the MICE and corporate business sectors.

As regards medium class hotels, the two-star System POP Hotel was converted into the three-star Quality Hotel. The number of the lowest category hotels remained the same.

Hotels in Krakow from a historical perspective

	2004	2005	2006	2007	2008	2009	2010	Hotels awaiting confirmation
Hotel *****	3	4	6	6	6	8	10	1
Hotel ****	8	7	7	11	13	16	21	3
Hotel ***	44	50	53	64	71	73	74	0
Hotel **	17	18	20	23	24	22	22	0
Hotel *	6	6	6	7	6	5	5	0
Total	78	85	92	111	120	124	132	4

Source: Marshal's Office of the Małopolskie Voivodship and the Hotel Register in Poland

The analysis of the Krakow hotel market development shows stagnation at the lower end. Limited development of one and two-star venues can be attributed to strong competition from hostels and other non-categorised venues, which in total offer ca. 13,000 bed places, often in better locations at a lower or similar price.

As a result of changes which took place in 2010, the city broadened its upper scale offer. At the end of the year Krakow had 31 four and five-star hotels offering a total of 5,273 bed places. The three-star sector still remains the largest, with 74 properties offering 6,552 bed places, that is 45 % of the total. Lower-end hotels offer in total 2,664 bed places which equates to 18 % of the market offer.

Currently there are four hotels waiting to be classified – three projects are expected to be granted four stars and one – five stars.

Selected new hotel projects in Krakow

The Hilton Garden Inn is located at 33 Konopnickiej Street (former Zakrzówek) and is the first Hilton Garden Inn in Poland. Although the hotel had been scheduled to open in Spring 2010 it was finally opened in January 2011. It is a four-star hotel intended mainly for business travellers, offering 154 rooms, a conference centre, fitness centre and indoor car park with 77 spaces.

The Galaxy Hotel at 22a Gęsia Street is currently under construction and is scheduled for delivery in April 2011. This will be a four-star venue with 205 rooms, a conference centre capable of hosting 500 people, a swimming pool, a spa and other facilities.

The Pantheon at 69 Nowohucka Street is a project by a local investor. Its opening was planned for 2009, however the investor announced a new tender for a general contractor in August 2009. Currently, the opening is planned for 2012. The hotel is planned to be a four-star property with 79 double rooms, three apartments, a 200 sqm conference centre, a business centre and a restaurant for 80 people.

Construction work on two Accor Group hotels (one-star Etap and two-star Ibis) within one complex on Pawia Street has been put on hold. The opening was originally planned for 2010, but it remains to be seen, as to when the project will be delivered. Krakow already has hotels of these brands, in the Bronowice district and on Syrokomli Street.

A five-star Hotel Kongresowy is planned to be delivered at Dąbska Street. The details of the project have not yet been disclosed.

The opening of a three or four-star hotel is planned for Balice Airport in 2012. The hotel with ca. 150 rooms will be operated by one of the international groups.

Genfer capital group is planning to deliver Puro hotels in the eight largest Polish cities by 2015. Krakow is one of these locations. The beginning of construction work is scheduled for the second half of 2011. The Puro hotel will be built at Pawia Street and will offer ca. 140 rooms.

Krakow hotel market compared with selected regional cities

The following analysis focuses on regional cities only. Warsaw as a capital city and business centre has the most developed hotel market – offering the highest number of bed-places in Poland – and is therefore not taken into account.

Krakow, however, can boast the highest number of categorised hotels in Poland – 132, with Poznań in second place among regional markets with 45, closely followed by Wrocław with 43. Few hotels were opened in 2010 in major Polish cities. Wrocław and Gdańsk saw delivery of one five-star hotel each. Katowice, the city with only 18 categorised hotels, saw delivery of two new four-star venues.

In Krakow nine new hotels were ranked, and four planned projects were waiting for classification.

Krakow has the highest number of hotels of any category. Taking into account the upscale category, as well as three-star hotels, no other city can be compared to Krakow. The capital of Małopolska has 10 five-star, 21 four-star and 74 three-star hotels. Wrocław is second among regional cities with respect to the number of upscale hotels – 5 five-star and 8 four-star hotels, while Gdańsk has 4 five-star and 5 four-star venues. Poznań and Katowice have only one five-star hotel each. Łódź so far does not have a hotel in this category. As regards three-star facilities, Krakow has over three times as many as Poznań and Wrocław.

Taking into account lower-end hotels Poznań has 10 properties less than Krakow (27 hotels) and the rest of the cities have much lower number of such venues.

Hotels in regional cities as of end 2010

Formally rated hotels	Krakow	Poznań	Wrocław	Gdańsk	Łódź	Katowice
Hotel *****	10	1	5	4	0	1
Hotel ****	21	5	8	5	2	4
Hotel ***	74	22	23	12	10	4
Hotel **	22	15	3	4	9	5
Hotel *	5	2	4	0	2	4
Total	132	45	43	25	23	18

Source: Colliers International on the basis of the Hotel Register in Poland

Krakow hotel market compared with other CEE cities

Whilst comparing the Krakow hotel market with the hotel markets of capitals from within the CEE region a typical divergence between capital and regional cities is noticeable. Prague, Bucharest and Budapest, all with significantly higher populations than Krakow, are important business and cultural centres on both a national and an international level. Therefore it is not surprising that these cities have a larger number of hotels on offer, although the number of hotels in Bucharest and Budapest is not significantly higher than Krakow's. It is more at the level of rooms and bed places, where the difference is noticeable. As regards Prague, the number of hotels, which is 407 – almost three times more than in Krakow – is more impressive.

At the same time Bratislava's hotel number is much lower than Krakow's. At the end of 2010, its offer amounted to 67 hotels. However, the number of bed places is not much lower than in Krakow.

Hotels in the selected CEE cities

Formally rated hotels	Krakow as of end 2010	Bratislava as of end 2010	Bucharest as of end 2010	Budapest as of end 2010	Prague as of end 2009	Kyiv as of end 2010	Vilnius as of end 2010
Hotel *****	10	5	11	16	37	4	5
Hotel ****	21	30	36	58	163	9	20
Hotel ***	74	33	51	73	193	17	24
Hotel **	22	14	23	7	12	13	12
Hotel *	5	7	10	3	2	4	2
Total	132	93	131	157	407	47	63
Number of rooms	7,799	6,197	11,405	17,246	n/a	6,061	4,029
Number of bed places	14,489	13,251	n/a	36,584	n/a	n/a	n/a

Source: Colliers International on the basis of statistical data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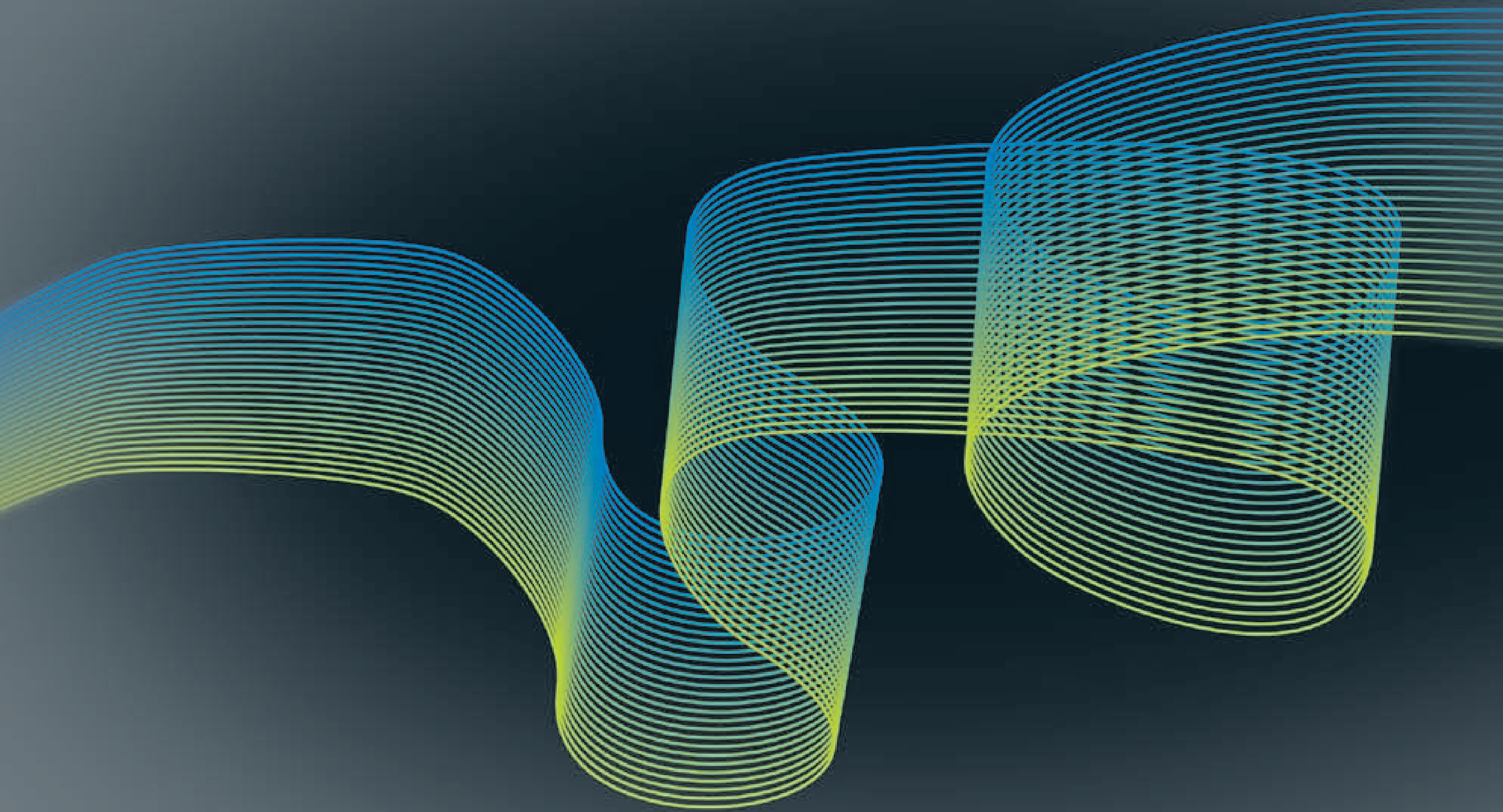
Krakow to business



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ADMINISTRATIVE BOROUGHS

	Current Status	
Area	Number	Name
Śródmieście	I	Old Town
	II	Grzegórzki
	III	Prądnik Czerwony
Krowodrza	IV	Prądnik Biały
	V	Krowodrza
	VI	Bronowice
	VII	Zwierzyniec
Podgórze	VIII	Dębniki
	IX	Łagiewniki – Borek Fałęcki
	X	Swoszowice
	XI	Podgórze Duchackie
	XII	Bieżanów – Prokocim
	XIII	Podgórze
Nowa Huta	XIV	Czyżyny
	XV	Mistrzejowice
	XVI	Bieńczyce
	XVII	Wzgórza Krzesławickie
	XVIII	Nowa Huta

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