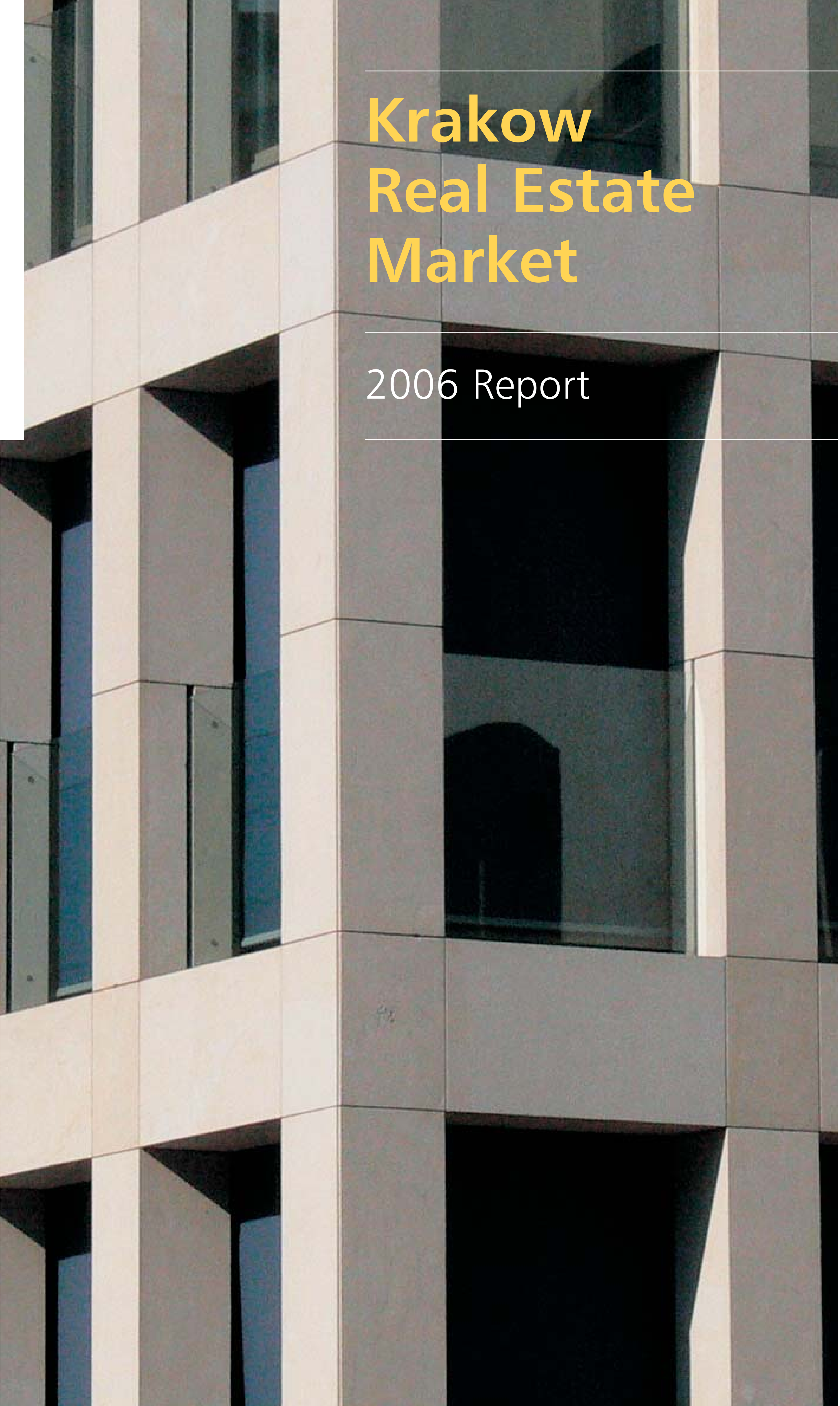
Krakow Real Estate Market

2006 Report

ECONOMY

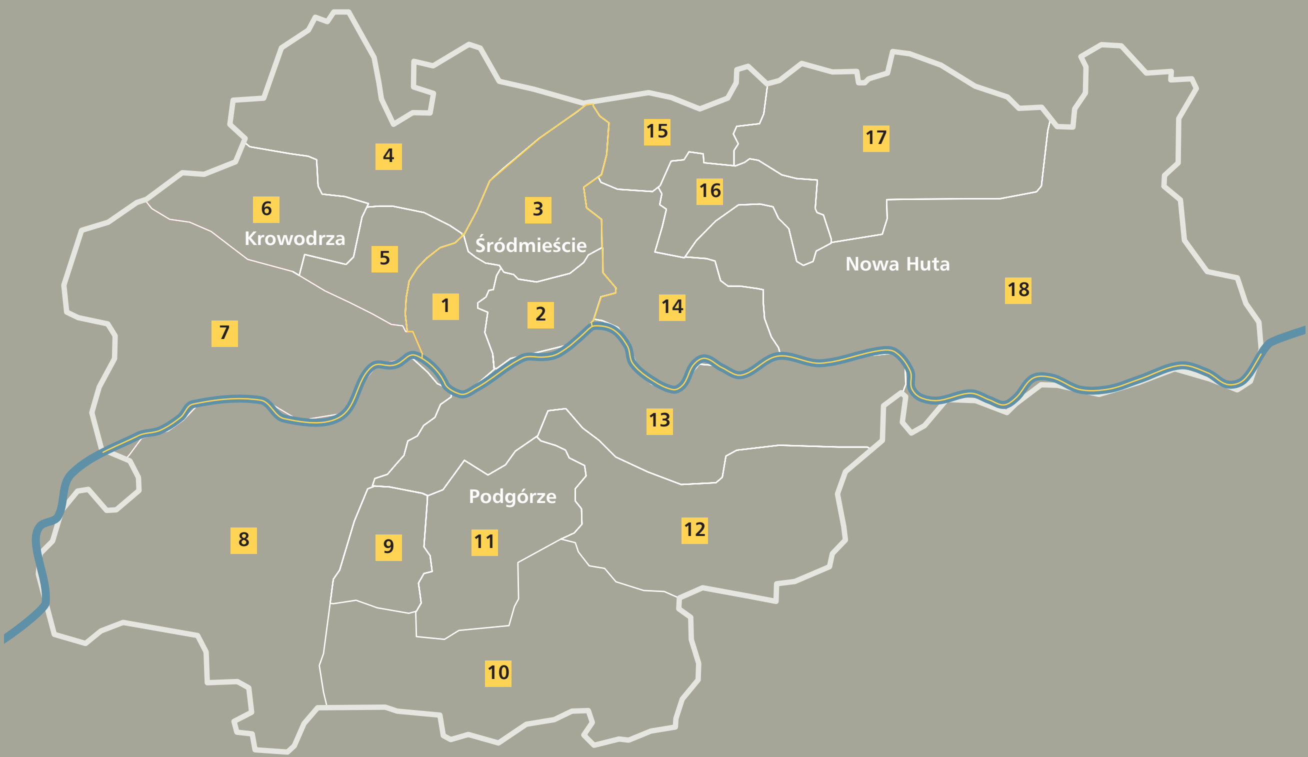


KRAKÓW

THE MUNICIPALITY OF KRAKOW

City Strategy and Development Department

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

Map of the Metropolitan Area of Krakow

Krakow
Krakow suburban zone
Metropolitan Area of Krakow
Poviat border

Table of Contents

1. Introduction	3
2. Demographic Data	4
3. Economic Potential	6
4. Residential Market	7
4.1. Housing – General Data	8
4.2. Residential Construction – Primary Market	10
4.3.1. Secondary Residential Market – Offer Prices	16
4.3.2. Secondary Residential Market – Transaction Prices	18
4.4. Tenements	21
4.5.1. Single-Family Buildings in Krakow	25
4.5.2. Single-Family Buildings within the Metropolitan Area	27
5. Land	30
5.1. Land in Krakow	31
5.2. Land in the Metropolitan Area of Krakow	34
6. Retail Space	37
7. Warehouse Space	40
8. Office Space	42
9. Hotel Market	46

Districts of Krakow

The following names appear in the report:: Krowodrza, Śródmieście, Podgórze, Nowa Huta without defining them as administration units (e. g. district). These names refer to the area of 4 former districts of Krakow and are contained within the following borders:

- Śródmieście – the area marked by the Vistula River from the south, Trzech Wieszczy Avenue from the west, running into the Kraków-Batowice railway line in the north, and ending on the line of the Polish Aviators Park (Park Lotników Polskich) and the current special economic zone in Czyżyny from the west.
- Nowa Huta – the area extending eastwards from Śródmieście, limited by the Vistula River from the south.
- Podgórze – the right bank area of the Vistula River
- Krowodrza – the western area of the city designated by the Vistula River from the south and ending on Trzech Wieszczy Avenue.

Prices

In this report, prices are stated in two currencies: EUR and PLN. Usage depends on the type of transaction, the most preferable being the basis for determining value. The current exchange rates may be found on the National Bank of Poland web site: www.nbp.pl, which will help you to translate the real estate value into the currency you are interested in.

1.

Introduction

Welcome to the latest edition of the “Krakow Real Estate Market“ („Krakowski Rynek Nieruchomości”) report, created in cooperation with the Krakow Residential Service **dominium.pl** (Krakowski Serwis Mieszkaniowy), the **mrn.pl** Institute of Analysis, The Real Estate Market Monitor (Instytut Analiz Monitor Rynku Nieruchomości) portal, and the Knight Frank company.

Dynamism and unprecedented changes are the main characteristics of the Krakow real estate market. Since Poland's accession to the EU we have experienced huge interest in Krakow and price growth has been seen in every market segment, from dwellings to warehouse space.

From 2004 onwards, demand has significantly exceeded supply and nothing implies that this situation will slow or even level off.

It seems that Krakow's citizens have begun to appreciate the value of investing in new real estate, while foreigners have also discovered the charm of our city in greater numbers than ever before. The locating of numerous new foreign investments in Krakow, focusing on its human capital: young, well educated graduates from its universities has also had an impact. This has resulted in a considerable demand for modern office space along with interest in the residential market. The dramatic increase in the number of tourists visiting the city is also of great significance, which translates into a rise in hotel investments and more land transactions. The trends outlined in this report should continue into the near future and it is anticipated that Krakow will strengthen its image as a city of business and services, and as a strong, European economic centre.

We hope that this report will familiarize you with key information determining the real estate market in Krakow and help you in making future investment decisions.

You are invited to Krakow!

2.

Demographic Data*

In 2005 the inhabitants of Krakow accounted for 1.98% of the population of Poland and 23.16% of the inhabitants of the Małopolskie Voivodship. The city had 756.6 K inhabitants

The selected indicators for the country, voivodship and Krakow are presented in the table 1.

Local communes surrounding the city of Krakow are noting a growth in population. In 2004-2005 the Krakow and Wielice Poviats showed a growth in population as a result of migration of more than 5 thousand people (Table 3).

Data contained in Table 4 demonstrates that 12,945 birth certificates were issued in Krakow, or a growth of almost 5% compared to the previous year. The number of death certificates increased by almost 4%. The number of concluded marriages fell by app. 3.5%, while since 2002 we have noted a continuous increase in the number of court decisions on divorce – an increase of app. 40% compared to 2005.

Table 1.
Selected Demographic Indicators for the Country, Voivodship and Krakow between 2002-2005

Indicator	Year	Country	Małopolskie Voivodship	Kraków
Number of People in Thousands	2002	38,218.5	3,237.2	757.5
	2003	38,190.6	3,252.9	757.7
	2004	38,173.8	3,260.2	757.4
	2005	38,157.1	3,266.2	756.6
Population Density per Person per m^2	2002	122	214	2,317
	2003	122	215	2,317
	2004	122	215	2,316
	2005	122	215	2,314
Women per 100 Men	2002	106.5	106.0	113.4
	2003	106.6	106.0	113.6
	2004	107	106	114
	2005	106.8	106.2	113.7
The Birth Rate to 1000 of Population	2002	-0.1	1.40	-1.31
	2003	-0.4	0.98	-1.26
	2004	-0.19	1.16	-0.82
	2005	-0.1	1.08	-0.8
Balance of Constant Migration to 1000 Total Population	2002	-0.47*	0.96	2.51
	2003	No Data	1.10	1.60
	2004	-0.25	0.99	1.47
	2005	-0.34	0.98	1.97

Source: Statistical Office in Krakow
* concerns foreign migrations for permanent residence

**source: Report on City Status 2005*

Table 2.
Age Structure of Krakow Population (in %) by Sex in 2005.

Age	2004 total	F	M	2005 total	F	M
Pre-Working	100.0	48.7	51.3	100.0	48.8	51.2
Working	100.0	50.5	49.5	100.0	50.4	49.6
Mobile	100.0	50.8	49.2	100.0	50.7	49.3
Not Mobile	100.0	50.0	50.0	100.0	49.9	50.1
Retired	100.0	68.0	32	100.0	68.0	32.0

Source: Statistical Office in Krakow

Table 3.
Migration Changes in the Commune Population in 2004-2005

Administrative Unit	Years	Constant Migration Balance	Total Migration (2004-2005)
City of Krakow	2004	1,078	2,525
	2005	1,447	
Krakow Poviat	2004	1,627	3,105
	2005	1,478	
Kocmyrzów-Luborzyca Commune	2004	134	232
	2005	98	
Liszki Commune	2004	163	258
	2005	95	
Mogilany Commune	2004	194	424
	2005	230	
Skawina City and Commune	2004	38	28
	2005	-10	
Wielka Wieś Commune	2004	147	257
	2005	110	
Zabierzów Commune	2004	178	439
	2005	261	
Zielonki Commune	2004	492	767
	2005	275	
Wieliczka Poviat	2004	994	2,001
	2005	1,007	
Niepołomice Town and Commune	2004	168	369
	2005	201	
Wieliczka Town and Commune	2004	676	1,353
	2005	677	

Source: Statistical Office in Krakow

Table 4.
Population Projection Indicators in 2002-2005

Specification	2002	2003	2004	2005
Births (Number of Issued Birth Certificates)	11,394	11,854	12,345	12,942
Deaths (Number of Issued Death Declarations)	9,044	9,235	9,172	9,528
Birth Rate (Births over Deaths)	2,350	2,619	3,173	3,414
Marriages (Number of Marriage Certificates)	4,002	4,046	4,092	3,955
Number of Court Decisions Stating Separation	no data	64	139	257
Number of Court Decisions Stating Divorce *	1,064	1,109	1,433	1,746

Source: UMK (the Municipal Office of Krakow) report drawn up on the basis of Registry Office data
 * for 2002 – the number of applications submitted to RO

Conclusions / Trends:

- Population diminution in Krakow
- Negative birth rate
- Positive constant migration balance
- Increase in number of marriages
- Increase in number of divorces
- Population growth in communes surrounding Krakow (suburbanisation phenomenon).

3.

Economic Potential

Krakow is the most important economic centre of the Małopolska region and one of the largest business centres in Poland. Since the beginning of 2000, the service sector has seen extremely intensive development with regard to the dominant position of the retail, repair, real estate and B2B services.

The university base along with the resources of young, well educated employees are the magnet for attracting new investment. In the 2004/2005 academic year, more than 170,000 students were studying in Krakow. Approximately 18% of the population possess master's degrees, and the educational level of the city's citizens continues to rise. It is for this reason, among others, that the high technology sector has had a dominant share in new investments in Krakow since 2003. Dramatic changes have also been seen within the Special Economic Zone – the Krakow Technological Park in particular.

Extending the opportunities for obtaining public support for investments in the services sector has allowed for further investments within the Special Economic Zone and the development of the BPO (Business Process Offshoring) sector. The following companies, among many others, invested in Krakow between 2004 and 2006: IBM, Shell, ACS, Cap Gemini, Electrolux, Wyse Technology. Similarly, Krakow-based companies have intensively expanded their business operations and increased employment, including Comarch with its headquarters in Czyżyny. Investment by the MAN company which has located its truck factory in neighbouring Niepołomice will also be of crucial significance for the Krakow market.

Table 5.
Sub-Zones of the Krakow Technological Park

Sub-Zone	Area in the Zone (ha)	Developed (%)
Kraków - Czyżyny	29,4404	37.66%
Kraków - Branice	13,8158	59.92%
Kraków - Pychowice	39,7672	55.10%
Kraków Business Park – Zabierzów	3,3000	100.00%
Niepołomicka Industrial Zone	140,87	100.00%
Tarnowski Economic Cluster	35,5829	62.04%
Total	262,7763	78.97%

Source: Krakow Technological Park

A great investment flow has also been seen in the hotel sector, reflecting the increasing number of tourists visiting Krakow and its surroundings year on year. 2005 saw 7.1 million visitors. The city's accommodation base was used by more than 3 million people, including 1.25 million foreigners. An increase of 20% in the number of visitors was recorded as compared with 2004.

Recent years have seen a considerable growth in the share of foreign tourists, who generally prefer to visit Krakow between April and October. However, the tourist season in Krakow is becoming longer from year to year. Since Krakow is surrounded by mountains, it experiences intense tourist movement in winter, as many people aiming for the ski slopes take the opportunity to stop in the city for at least a day.

The greater number of foreign tourists may be seen as resulting mainly from the development of new air connections with Krakow's Balice airport, especially the emergence of the low cost airlines. In 2005, 21% of tourists arrived in Krakow by plane (16% in 2004 and 10% in 2003). This growing trend is also clear in the percentage of foreign travellers using airlines: 19% in 2003, 30% in 2004 and 48% in 2005.

Krakow is still highly popular with German tourists (app. 20 % visitors to Poland). The British and Americans are ranked in successive positions. Among Poles, the greatest number of tourists arriving in Krakow come from the Małopolska region, with many guests also from Warsaw and Silesia.

As MOT research on the accommodation base in the city shows, 25% of domestic tourists and 71% of tourists stay in the city's hotels.

Table 6.
Number of People Using Accommodation in Krakow

Tourists	2002	2003	2004	2005
Total [thousand]	831	841	1,010	1,182
Domestic [thousand]	412	409	438	454
Foreigners [thousand}	419	432	572	728
Participation of Foreign Tourists	50.4%	51.4%	56.6%	61.6%

Source: the Małopolska Tourist Organization (MOT)

Table 7.
Volume of Tourist Movement in Krakow
Estimated Number of People According to MOT Estimates

	2003	2004	2005
Total Number of Visitors [thousand]	5,500	6,400	7,100
Domestic Visitors [thousand]	4,800	4,864	4,800
Foreigners Visitors [thousand]	700	1,536	2,300
Including:			
Total Number of Tourists* [thousand]	1,255	3,000	3,100
Domestic Tourists [thousand]	650	2,100	1,850
Foreign Tourists [thousand]	605	900	1,250

Source: the Małopolska Tourist Organization (MOT)
* Tourist – a person staying at least one night in accommodation in a particular place.

Conclusions / Trends:
• The number of foreign investments in Krakow is increasing
• The number of airline connections is increasing
• Tourist movement is increasing

4.

Residential | Market

4.1.

Housing – General Data*

In 2005, there were 293.3 thousand dwellings in Krakow. The average usable floor space was 56.0 m^2 with the number of rooms being 3.16 and their unit floor space being 17.6 m^2. 4.5 thousand new dwellings were created.

In light of the Table 8 data, it may be stated that:

- The standard of dwelling conditions for Krakow inhabitants is following a constantly improving trend
- In order to achieve the level of 400 dwellings per 1,000 inhabitants (along with a level of 2.5 persons per dwelling), with the current number of inhabitants (756.6 thousand – status as of 31 December 2005), the number of inhabitants must increase by app. 9.3 thousand
- If we assume that each family is entitled to its own dwelling, then currently 13,574 are unaccounted for, on the assumption that in Krakow in 2002 there were 306,874 households (data from the Common Census). It needs to be said that many households express the desire for common living (in particular single-family buildings)
- If the dwellings are on average 66.6m^2 (for an average floor space of a new dwelling in 2005), then
- The average floor space per inhabitant would be 25.81 m^2.

In 2005, the number of newly created dwellings increased slightly – by 2%; the number of concluded marriages grew slightly – by 6%. Comparison between the number of contracted marriages and dwellings built in 2004 – 2005 shows that the housing situation was much better in 2004.

Table 8.
Volume of Dwelling Resources in Krakow 2002-2005

Years	Number of Dwellings (thousand)	Number of Premises (thousand)	Usable Floor Space (m^2)	Average Usable Floor Space of the Dwelling (m^2)
2002	281,0	889,2	15,59 mln	55.5
2003	285,1	902,5	15,90 mln	55.8
2004	289,0	914,5	16,14 mln	55.9
2005	293,3	927,8	16,41 mln	56.0

Source: Statistical Office in Krakow

Table 9.
Housing Indicators in Krakow in 2002-2005

	2002	2003	2004	2005	Standard
Av. Number of People per 1 Room	0.85	0.84	0.83	0.82	1
Average Number of People per 1 Dwelling	2.70	2.66	2.62	2.58	2.5 - 2.8
Average Usable Floor Space for 1 Person in m^2	20.6	21.0	21.3	21.7	25 - 28
Number of Inhabitants per 1000 Inhabitants	370.9	376.3	381.6	387.6	400
The Number of the Constructed Dwellings per 1000 Contracted Marriages	1,038	1,185	1,332	1,281	min. 1,000

Source: Statistical Office in Krakow

**source: Report on City Status 2005*

4.2.

Residential Construction – Primary Market*

Since 1998 app. 3,500 - 4,500 dwellings have been built per year in Krakow. A record-breaking number of dwellings - over 5,500 - was delivered in 2001, the last year in which the so called large construction allowance was in force (tax allowance).

The demand on the housing market in Krakow and other major Polish cities was determined by a high sensitivity to tax changes relating to real estate. Often, tax modifications consisting mainly in the liquidation of successive allowances motivated buyers to reach prompt purchase decisions. For this reason, between 1998 and 2003 changing waves of demand were observed resulting in significant differences in the amount of delivered dwellings.

Over the past three years the emergence of a new growth trend and a systematic growth in the number of dwellings handed over may be recorded. According to the Municipal Office of the City of Krakow estimate, as many as 3,800 dwellings were delivered in the first half of 2006 and, if the number of the delivered dwellings continues to remain at a high level, a new record will be achieved.

Since 2003 the main role in shaping the demand for dwellings has been played by EU accession and a systematically sliding interest rate of mortgage credits. The increase in the trade of dwellings was influenced by the desire to avoid the value added tax (VAT) rate of 7% on new dwellings. Fierce competition among banks forced the adjustment of the offer to various borrower segments, and competition for market position resulted in speedier credit decisions and the lowering of barriers to credit.

At present, the Krakow residential market is faced with a lack of new dwellings, and developers sell most of their offers at the pre-construction phase. Supply has adjusted to changes in

Table 10.
General Number of Delivered Dwellings in Krakow between 1998-2005.

Year	Number of Dwellings	Total Usable Floor Space in Thousand m^2	Average Floor Space of Delivered Dwellings
1998	3,496	259,720	74.29
1999	4,212	269,976	64.10
2000	3,423	248,433	72.58
2001	5,517	331,593	60.10
2002	3,481	219,731	63.12
2003	4,123	312,922	75.90
2004	4,472	301,824	67.49
2005	4,557	303,496	66.6

source: Statistical Office in Krakow

Report: The Krakow Residential Service* ***dominium.pl*

demand. A group of local developers have formed in Krakow who are aware of the conditions and local real estate market, and who have come to dominate residential construction in the city. In 2005 the developers built over 60% of all houses and dwellings. It is worth emphasizing that even in 2000 the market participation of developers did not significantly exceed 40%. About 20% of the constructed dwellings in Krakow have been developed by private investors (natural person) who build houses for their own purposes. Due to restrictions from the rules for the granting of credit, offers of rental dwellings built by the Social Housing Construction (Towarzystwa Budownictwa Społecznego) have actually disappeared from the real estate market in Krakow. A part of the TBS now develops mortgage dwellings on developer principles.

The share of housing cooperatives is also becoming marginalised (almost none are actively investing). The share of cooperative housing will soon fall below 10%. Cooperatives have had difficulty in adjusting to market rules for managing and selling investments, and older cooperative members are not interested in taking on investment risk.

In recent years Krakow's companies have commenced developer activities in other cities, mainly Wroclaw, Warsaw, Chorzow, Zakopane and Opole.

Taking into account Poland's accession to the EU and the market development, a number of foreign investors have launched investments (bigger investments are so far executed by companies representing Italian, Portuguese and Israeli capital). The Arka BZ WBK Real Estate Fund (Fundusz Rynku Nieruchomości) and ING Real Estate have joined the list of investments from developers of Krakow.

The residential market in Krakow is diverse and although members have created bigger companies, prices are based on free-market principles. Active investment operations are currently run by app. 80-90 investors. In most cases development companies operate as limited liability companies, and in single cases they are joint stock companies and private partnerships without a legal personality.

Analysis of market offers is based on investments concluded through the Krakow Residential Service (Krakowskim Serwisie Mieszkaniowym) **dominium.pl** (http://www.dominium.pl). The largest base of new dwellings and houses built in Krakow and its surroundings (over 80 percent of all investments are developed in Krakow including the investments of every significant investor) are presented in **dominium. pl**.

A freestanding building is regarded as a single investment, even if it is being developed within a bigger residential complex. There is no one unequivocal definition to differ an apartment from a dwelling. In general, an apartment is well located, attractively designed and situated in completed buildings. In this analysis an apartment is understood as a dwelling in the centre of the city or in attractive surroundings, and which has most of the following features:

- A location in a renovated historical building of attractive architectural style and with a high standard of shared space
- High standard premises (height exceeding 2.7 m, finished floor, bath, kitchen, indoor joinery)
- Additional functions offered by the residential complex (recreation, reception, services such as cleaning)
- A high level of safety (monitoring, security, fence)
- A considerable number of parking lots, air conditioning and other systems upgrading the comfort of a dwelling
- An attractive location for the building and a view, terrace, green interior courtyard, and large plot around the building.

All other offers not included in executive apartments are recognised as dwellings. Dwellings are most often located outside the direct city centre and its most attractive districts, and do not have many additional and outlined above functions. Most often such dwellings are located in standard buildings, and the only additional function is fencing or an anti-burglar door.

Most investments of an executive apartment nature are currently being developed in the Śródmieście and Krowodrza districts (15 and 14 respectively). Fewer investments of this kind may be encountered in Podgórze (9), while Nowa Huta is totally devoid of executive apartments.

In Śródmieście, executive apartments are most often built in renovated tenements or „infill buildings" in Stare Miasto, Kazimierz or Grzegórzki.

In Krowodrza, investments of upgraded standard are being carried out in Zwierzyniec, Bronowice and Łobzów.

In Podgórze, executive apartments are being constructed mainly in district XIII (Stare Podgórze), situated in the neighbourhood of the left bank of the Vistula River (opposite Kazimierz). Such investments may also be seen in Dębniki and Ruczaj, where high buildings of large cubic capacity are being built.

Investors are reluctant to take on the risks associated with the building of executive apartments in Nowa Huta as they are worried about a perceived lower prestige of the area, and are only offering cheaper apartments here.

Table 11.
Volume Distribution of Investment in the City of Krakow - August 2006

Area	Type of Investment	Number of Investments
Krowodrza	Apartments	14
Krowodrza	Houses	4
Krowodrza	Dwellings	28
Nowa Huta	Dwellings	5
Podgórze	Apartments	9
Podgórze	Houses	8
Podgórze	Dwellings	51
Śródmieście	Apartments	15
Śródmieście	Dwellings	7
Total		141

Source: Krakow Residential Service ***dominium.pl****, August 2006*

The share of executive apartment buildings in total investments is constantly growing. At present, such buildings constitute almost 30% of total investments. This results from an influx of purchasers from abroad and customers considering the purchase of an apartment as an investment. They expect a higher standard and are ready to pay a higher price.

Residential apartments are twice as numerous as executive apartment blocks (64%), while single-family buildings account for only 9%. Single-family construction is developing outside the city in neighbouring districts, including Zabierzów, Wielka Wieś, Zielonki, Mogilany, Wieliczka, Niepołomice, Michałowice.

Most investments – over 50% – are located in Podgórze. It is relatively easy to find suitable land for construction here, which is the reason for the area's domination. One third of Krakow investments are currently being carried out in Krowodrza, with only 4% in Nowa Huta.

In Krakow, dwellings are offered to a so called developer's standard, with a few exceptions. This means that purchasers are required to independently complete floors and bathrooms, and purchase fittings and inside joinery (doors, casings). Developers occasionally offer finishing services for an additional fee, although customers rarely take up this service. Most purchasers prefer to finish and equip their apartments to their own specifications, searching for lower costs and opportunities to choose materials which reflect their own tastes.

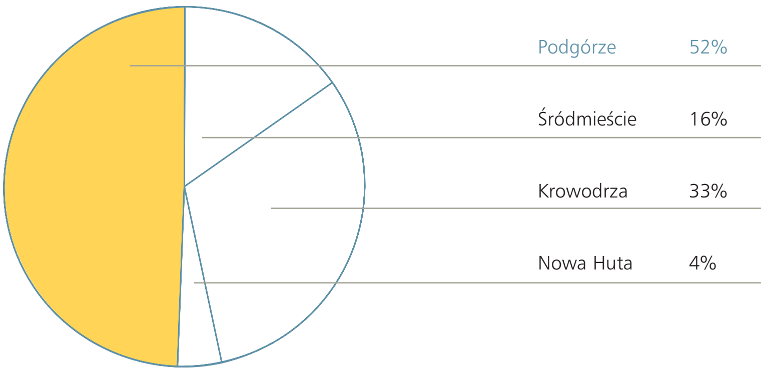
In residential construction, many investors offer "turn-key" apartments (with the option of choosing a finish type and standard as well as consulting an interior architect). However, this is not obligatory and customers may finish their executive apartments on their own.

In the construction industry in Krakow there is no one dominant type of development. Almost the same number (app. 30%) of buildings under construction consist of 3 storeys (ground floor + 2 floors) or 4-5 storeys (ground floor+ 3 or 4 floors). The remaining and the largest group constitutes 6 or more storey buildings.

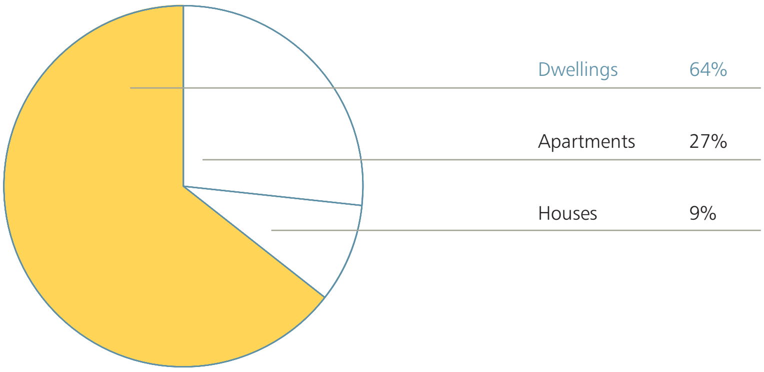
Medium/average size buildings dominate the offers of developers. Most buildings (almost 40%) have from 30 to 50 housing premises. A significant group (about 30%) of buildings have from 50-100 dwellings.

Buildings constructed by means of traditional technology (brick houses), with a fence and most often an underground parking space have became standard in Krakow.

Graph 1.
Percentage Share of Investments in the City of Krakow (by Area) – August 2006



Graph 2.
Percentage Share of Investments in the City of Krakow (by Type of Investment) – August 2006



Because of the consistently low level of inflation, app. 1 in 4 investments currently being sold are not subject to the valorisation of prices (this concerns in particular those investments which have already been developed). The remaining investors valuate the rates paid for the purposes of prices by means of indicators from the Main Statistical Office.

Developers accept the first payment at the 10-30 percent level of the value of a dwelling and the remaining part of the price is usually paid in monthly instalments until the end of the construction process. Buyers who immediately pay the whole value of the dwelling, may receive some purchase discounts, particularly in the initial investment phase.

Buyers of a dwelling are currently required to wait to receive the keys from between 12 to 24 months. Only 13% of investments currently offered will be delivered this year. In these investments only the less attractive premises have not been sold – large premises in undesirable locations or with difficult interiors to design. About 60% of all of the investments will be delivered in 2007, with over 20% at an even later date.

At present the greatest number of buildings in Krakow are of 40-60 m^2 and 60-80 m^2, constituting in total app. 65% of market offers. The share of the smallest dwellings, which used to be the most popular on the market, is falling.

The new dwellings and apartments market may be divided into five price zones.

The highest prices for apartments are recorded in Stare Miasto. Prices in renovated tenements or buildings developed on the „infill building" basis range between PLN 11,000 and 16,000 gross per 1 m^2.

Slightly lower prices are recorded in Zwierzyniec (Wola Justowska, Salwator). In this area apartment prices range between PLN 8,000 and 12,000 gross per m^2.

The average prices of new dwellings in the range of PLN 7,000 and 9,000 per m^2 are recorded in the districts surrounding Stare Miasto, in Łobzow, Stare Podgórze and Grzegórzki.

In the next price zone, in which 1 m^2 costs PLN 5,000-7,000 are recorded the districts somewhat removed from the centre: Dębniki, Wola Duchacka, Swoszowice, Łagiewniki, Prądnik Biały and Bronowice.

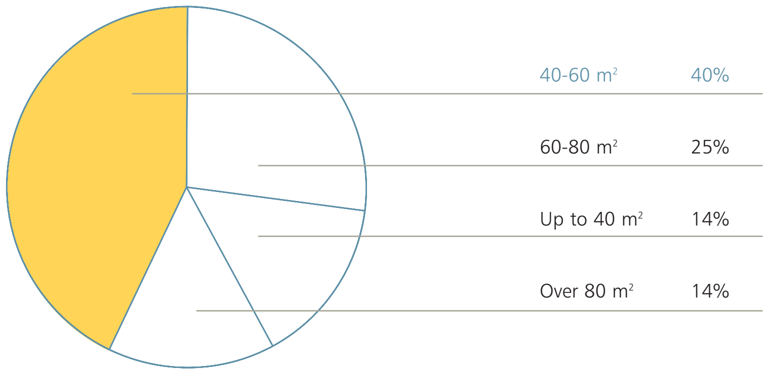
Finally, the lowest prices for dwellings are recorded in the south-eastern and north-eastern regions of the city. In districts such as Mistrzejowice, Płaszów, Prokocim, Bieżanów, Prądnik Czerwony 1 m^2 costs from PLN 4,000 to 5,000 per m^2.

Table 12.
Completion Dates for Investments Being Offered by Area, Quarter and Year

Scheduled Completion Deadline	Area	Number of Investments	% of the Deliv. Investments Acc. to Quarter	% of the Deliv. Investments Acc. to the Year
3rd Quarter	Krowodrza	3		
3rd Quarter	Podgórze	2		
3rd Quarter	Śródmieście	2	5	
4th Quarter	Krowodrza	5		
4th Quarter	Podgórze	5		
4th Quarter	Śródmieście	1	8	
2006				13
1st Quarter	Krowodrza	3		
1st Quarter	Podgórze	6		
1st Quarter	Śródmieście	4	9	
2nd Quarter	Krowodrza	3		
2nd Quarter	Podgórze	13	12	
2nd Quarter	Krowodrza	6		
3rd Quarter	Nowa Huta	1		
3rd Quarter	Podgórze	15		
3rd Quarter	Śródmieście	1	17	
4th Quarter	Krowodrza	10		
4th Quarter	Nowa Huta	3		
4th Quarter	Podgórze	12		
4th Quarter	Śródmieście	8	24	
2007				61
1st Quarter	Krowodrza	3		
1st Quarter	Podgórze	3	4	
2nd Quarter	Krowodrza	7		
2nd Quarter	Śródmieście	2	6	
3rd Quarter	Krowodrza	2		
3rd Quarter	Śródmieście	4	4	
4th Quarter	Krowodrza	2		
4th Quarter	Podgórze	2	3	
2008				18
2nd Quarter	Podgórze	5	4	
3rd Quarter	Krowodrza	1		
3rd Quarter	Podgórze	1	1	
2009				5
Total		139	100	100

*Source: Krakow Residential Service **dominium.pl**, August 2006*

Graph 3.
Structure of Dwellings Offered by Space



The average price for new dwellings and apartments calculated for the 15 districts of Krakow in which new investments are being carried out at the beginning of August was PLN 6,733 gross per m^2.

According to **dominium. pl** data, in the period from November 2004 to August 2006 the price of new dwellings and apartments grew in the districts of Krakow from 31% (in Śródmieście-Prądnik Czerwony) to 105% (in Krowodrza-Zwierzyniec, Podgórze-Stare Podgórze, Krowodrza-Prądnik Biały). The average growth level noted in other districts was Nowa Huta-Mistrzejowice (42%), Podgórze-Dębniki (63%), Krowodrza-Łobzów (78%), and in Śródmieście-Grzegórzki (92%). In the analysis, 12 districts were examined in which parallel data was available: Krowodrza-Zwierzyniec, Krowodrza-Prądnik Biały, Podgórze-Stare Podgórze, Śródmieście-Grzegórzki, Krowodrza--Łobzów, Podgórze-Wola Duchacka, Krowodrza-Bronowice, Podgórze-Łagiewniki, Podgórze-Dębniki, Śródmieście-Stare Miasto, Nowa Huta-Mistrzejowice and Śródmieście-Prądnik Czerwony.

Dwellings and apartments in the districts surrounding Stare Miasto recorded the highest price rise. In Stare Miasto alone, average prices increased by almost 64%. The lowest increase was recorded in two northern districts: Prądnik Czerwony and Mistrzejowice. In general, the average increase in prices equalled 75.25% in 12 of the analysed districts.

In the structure of Krakow's newly-developed dwellings and apartments, in August 2006 there were three dominant price divisions. Most offers were of the following prices: PLN 5,000-7,000 gross per m^2 (42%), followed by PLN 4,000-5,000 (32%) and finally PLN 7,000-9,000 (13%)

It is worth emphasising that even as late as November 2004 almost 60% of all dwellings and apartments in Krakow cost more than PLN 3,500 gross per m^2, with only 3% more than PLN 5,000.

Table 13.
Average Gross Price per m^2 of Housing Premises in Selected Districts of Krakow and Neighbouring Cities

District	Average Gross Price per m^2
Śródmieście – Stare Miasto	13,200
Krowodrza – Zwierzyniec (Wola Justowska)	9,800
Śródmieście – Grzegórzki	8,706
Podgórze – Stare Podgórze	8,289
Krowodrza – Łobzów	7,120
Krowodrza – Bronowice	6,996
Krowodrza – Prądnik Biały	6,187
Podgórze – Łagiewniki	5,972
Podgórze – Swoszowice	5,789
Podgórze – Wola Duchacka	5,642
Podgórze – Dębniki (Ruczaj Zaborze)	5,496
Śródmieście – Prądnik Czerwony	4,710
Podgórze – Prokocim, Bieżanów	4,588
Podgórze – Płaszów	4,384
Nowa Huta – Mistrzejowice	4,125
Zakopane	8,000
Wieliczka	3,856
Myślenice	3,675

Source: Krakow Residential Service **dominium.pl**, *August 2006*

4.3.1.

Secondary Residential Market – Offer Prices*

In order to examine prices on the primary and secondary markets, 1,577 sale offers submitted by natural persons and real estate offices as part of the **dominium.pl** service in the period from May to July 2006 were compared. Offer prices are usually higher than the prices of transactions, as a result of the agent's commission and the potential for price negotiation.

The average offer price per m^2 for dwellings and apartments on the secondary market for the whole of Krakow amounted to PLN 6,134 during this period, and this was app. 10% lower than on the primary market (gross PLN 6,733 per m^2).

The surprising fact is that the offer price of dwellings on the secondary market in less expensive districts is higher (even 10%) than the price of new dwellings. This phenomenon is the result of limited primary market offers (for a new dwelling you may even have to wait for 2 years) and the desirability of the speedy purchase of already available dwellings (a means of escaping price rises).

In more expensive districts such a situation is not apparent and prices are at a similar level or new premises are more expensive (up to 20%).

Table 14.
Average Offer Prices on the Secondary Market according to Area (PLN per m^2)

District	Average Gross Price per m^2
Śródmieście	7,828
Krowodrza	6,635
Podgórze	5,380
Nowa Huta	4,696
Kraków	6134

Source: Krakow Residential Service ***dominium.pl****, August 2006*

Report: The Krakow Residential Service* ***dominium.pl*

Table 15.
Comparison of Average Prices on the Primary and Secondary Market according to the Selected Districts

District	Primary Market (gross PLN/m²)	Secondary Market (gross PLN/m²)	Price Difference (PLN/m²)	(%)
Śródmieście – Stare Miasto	13,200	10,259	2,941	22
Krowodrza – Zwierzyniec (Wola Justowska)	9,800	8,459	1,341	14
Śródmieście – Grzegórzki	8,706	6,966	1,740	20
Podgórze – Stare Podgórze	8,289	7,027	1,262	15
Krowodrza – Łobzów	7,120	7,425	-305	-4
Krowodrza – Bronowice	6,996	6,299	697	10
Krowodrza – Prądnik Biały	6,187	6,104	83	1
Podgórze – Łagiewniki	5,972	5,363	609	10
Podgórze – Swoszowice	5,789	5,588	201	3
Podgórze – Wola Duchacka	5,642	4,815	827	15
Podgórze – Dębniki (Ruczaj Zaborze)	5,496	6,121	-625	-11
Śródmieście – Prądnik Czerwony	4,710	5,992	-1,282	-27
Podgórze – Prokocim, Bieżanów	4,588	5,015	-427	-9
Podgórze – Płaszów	4,384	4,751	-367	-8
Nowa Huta – Mistrzejowice	4,125	4,525	-400	-10

Source: Krakow Residential Service ***dominium.pl***

Conclusions / Trends:

- Over the last three years the number of delivered dwellings has increased
- New dwellings are at present scarce, with most investments being sold before construction is finished
- Local investors have the highest share of the market
- The local residential construction market is fragmented, with prices based on free-market principles
- Most investments of an executive apartment nature are currently being developed in Śródmieście and Krowodrza
- Over 50% of all investments are being developed in Podgórze
- The dwellings are mostly offered for individual completion
- In developer offers the dominant buildings are those of average size (from 30 to 50 premises in the building)
- To collect the keys to a new dwelling a buyer is usually required to wait from 12 to 24 months
- Dwellings with a floor space of 40-60 m² are currently under construction
- The average price for dwellings and apartments at the beginning of August amounted to PLN 6,733 gross per m²
- According to **dominium.pl** data, over the past 20 months (prior to August 2006) the price of new dwellings increased in Krakow's districts from 31 to 105 %
- The average offer price of dwellings and apartments on the secondary market is app. 10% lower on average than on the primary market in the whole of Krakow.

4.3.2.

Secondary Residential Market – Transaction Prices*

This analysis covers all the dwelling sale transactions on the secondary market in the area of Krakow, excluding cooperative dwellings.
Over the past three years, most transactions have been concluded in Krowodrza, Śródmieście and Podgórze. Taking into consideration the number and value of the concluded transactions, we have arrived at a measurable attractiveness evaluation for particular areas of Krakow, among which Krowodrza and Śródmieście have enjoyed the greatest interest over the same period of time The largest trade dynamic was recorded in Śródmieście, which demonstrates the highest growth in dwelling prices on a similar number of transactions in particular years.

The highest average prices in the period 2003 - 1Q 2006 were recorded in Śródmieście and Krowodrza, while in Podgórze the average price per m^2 was app. 20% lower. The lowest dwelling prices were in Nowa Huta, where the average price per m^2 was over 50% lower than Śródmieście and Krowodrza. Analysis of transactions on the secondary residential market shows that in 1Q 2006 the average price per m^2 was almost 60% higher than average prices noted in 2003.

Over the past three years, double premises dwellings with a floor space of app. 50 m^2 have been in most demand, situated in medium brick blocks near the downtown, i.e. in Śródmieście or Krowodrza, or particularly well located and maintained dwellings in tenements or new apartments in downtown Krakow, and were purchased primarily by foreign investors interested in investment.

Table 16.
Comparison of Trade and Number of Transactions on the Secondary Residential Market (Excluding Cooperative Development Dwellings)

	2003 Trade (mln.)	Numb. trans.	2004 Trade (mln.)	Numb. trans.	2005 Trade (mln.)	Numb. trans.	2006 1st Quarter Trade (mln.)	Numb. trans.
Śródmieście	138.34	802	140.32	709	181.66	712	31.40	130
Krowodrza	130.88	843	102.78	571	113.05	563	21.06	80
Podgórze	103.44	802	83.50	623	82.82	510	20.17	95
Nowa Huta	47.57	591	41.95	452	40.43	391	5.42	44

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

Report: Institute of Analysis, The Real Estate Market Monitor* ***mrn.pl*

The most expensive Krakow district is District I – the Old Town in Śródmieście. There are few dwelling sale offers on the market in this location, with the average dwelling price amounting to app. PLN 10,000 per m^2. The record dwelling price in this location (double premises dwelling in a tenement next to the Main Square) and simultaneously the highest price recorded in Krakow, amounted to PLN 23,222 per m^2. Slightly lower prices are seen in the Kleparz and Kazimierz area, which has recently become a fashionable entertainment and tourist centre. Dwellings in tenements tend to be high with large and bright rooms which, apart from the excellent location, is an additional attraction. In the two remaining districts of Śródmieście dwelling prices are app. 30% lower (Grzegórzki – app. PLN 6,500 per m^2, Prądnik Czerwony – app. PLN 6,000 per m^2).

In Krowodrza, the most attractive locations are the following districts: V – Krowodrza, VI – Bronowice and VII – Zwierzyniec. The highest prices on the secondary market are achieved by dwellings located in tenements built during the interwar period, in the area situated between Kościuszki and Wrocławska Streets. Most recently, the price of such dwellings has exceed PLN 7,000 per m^2. The northern part of Districts V and VI are typical multi-family and multi-floor developments (the Azory and Widok housing estates, and other old estates erected in the 70s and 80s based on the, so called, large slab). At present, due to the slow development of the primary market, dwellings situated in these buildings have maintained their high prices, although in a post-10 year perspective they will become more expensive at a slower rate than houses erected by the use of traditional technology.

In Podgórze, purchasers have expressed the greatest level of interest in the old part of Podgórze (District XIII) and Dębnik (District VIII), built primarily with tenements constituting the remains of former separate small towns. Dwellings in unkempt tenements, in particular those situated by the Vistula River, have gained high prices, often above PLN 6,500 per m^2.

Rapidly developing areas include Pychowice, Ruczaj and Kliny, where a new campus of the Jagiellonian University is under construction, along with the education facilities of the Pontifical Academy of Theology and premises belonging to high technology companies (including Motorola). Many dwellings in this area, built after 1990, have appeared on the secondary market.

Prokocim, Bieżanów, Piaski Nowe, Kurdwanów, Wola Duchacka, Kozłówek, Piaski, Płaszów are all old estates erected in the 1970s and 80s, and built of concrete prefabricates. Dwelling prices are lower in these areas, reaching a level below PLN 4,000 per m^2.

Tabela 17.

Average Dwelling Prices per m^2 on the Secondary Market in Śródmieście, Krowodrza, Podgórze and Nowa Huta between 2003 and 1Q 2006

	2003	2004	2005	2006 1Q.
Śródmieście	2,967 PLN	3,296 PLN	4,193 PLN	4,552 PLN
Krowodrza	2,830 PLN	3,118 PLN	3,681 PLN	4,452 PLN
Podgórze	2,517 PLN	2,665 PLN	3,196 PLN	3,708 PLN
Nowa Huta	1,862 PLN	2,165 PLN	2,469 PLN	2,892 PLN

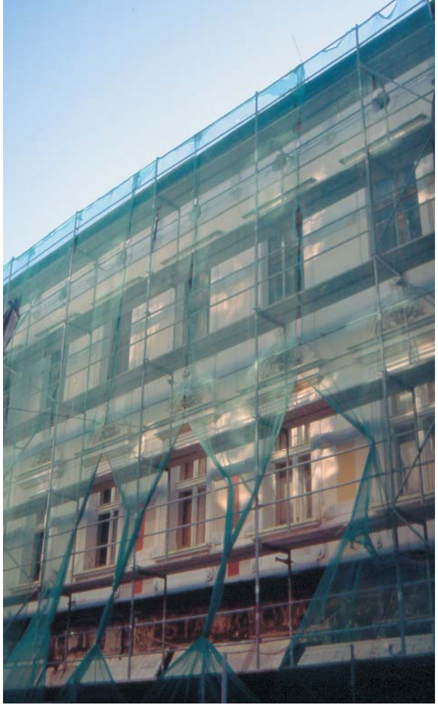
Source: Institute of Analysis, The Real Estate Market Monitor ***mrn.pl***

In Nowa Huta, the most expensive dwellings are those located in Czyżyny, the area neighbouring Śródmieście and well connected with the downtown.

Dwellings which are located in former commune and company-owned blocks located in the estates of the oldest area of Nowa Huta are sold at the lowest prices.

Conclusions / Trends:

- In Krakow, dwelling prices on the secondary market are in the range of app. PLN 2,500 per m^2 and PLN 12,000 per m^2
- Since 2003, the secondary residential market in Krakow has seen a continuous price increase regardless of the dwelling size or location. Average prices recorded in the first quarter of 2006 in all the Districts of Krakow were app. 50-60% higher than those of 2003
- The main factors influencing dwelling prices in Krakow are (in the following order): location, fashion, surroundings, and technical condition of the building (dwelling)
- The most expensive locations within Krakow include, in the following order: Stare Miasto, Kazimierz, Wola Justowska and Zwierzyniec, Dębniki
- The main factors influencing the lasting advantage of demand over supply are:
  - Poland's accession to the European Union
  - A demographic peak in the first half of the 1980s entering the market
  - Large influx population (mainly students)
  - Easier access to credit
  - Credit costs approaching the level of dwelling lease
  - Increasing number of foreigners
  - Economic growth.



4.4.

Tenements

For the purpose of this report, data on 113 transactions was analysed having excluded overly cheap or expensive multi-family buildings in the area of the former Śródmieście District, covering present day districts I, II and III.

Tenements are multi-family buildings in close street-adjacent development, built of bricks. Tenements often have a historical nature and are under the charge of a conservator. They are the dominant development structure of the Old Town and also other districts, including in particular those which used to be separate municipal units (such as Kazimierz, Kleparz, and Podgórze).

The tenement market has seen a strong price growth trend over the past three years and before.

The price increase amounts to over 52% per year. The largest volume of expensive transactions has been concluded since February 2005.

Table 18.
Trade Volume in 2003-2005

Year	Number of Transactions involving Entire Tenements	Number of Transactions involving Shares in Tenements	Total Transactions in the Year	Year to Year (Previous Year = 100%)
2003	14	75	89	
2004	28	67	95	107%
2005	36	104	140	147%
Total	78	246	324	

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

The following three factors have led to this situation, and we may call them fundamental growth premises:

- The court decision of 19 April 2005, file signature K 4/05 of the Constitutional Tribunal was of vital significance for tenement owners. On the basis of the decision on administrative allotment the non-constitutionality of art. 9 paragraph 1 of the Law on the Protection of Occupiers' Rights was established, in particular the part not allowing for rises of more than 10% per year after the rental fees have exceeded 3% of the reproduction value. The same non-constitutionality applied to Art. 9 paragraph 1a of the same law, which did not allow for a rise in rental fees by more than 10% in cases in which the current rental fee was not higher than 3% of the reproduction value and the increased fee had exceeded this level. In fact, the ruling of the Tribunal resulted in the possibility of raising the rental fee to market levels, which was a considerable incentive to quality transformations in close residential developments.
- Poland's accession to the EU, which attracted the attention of foreign investors to the Polish market, and decreased investment risk.
- The promotion of Krakow on foreign markets, including spectacular events broadcast by worldwide media, such as Papal visits, the funeral ceremony of John Paul II (strongly connected with Krakow) and others.

To all intents and purposes, over the last year the real estate market in Krakow has become a European market, even a global market (when taking the inflow of investment capital into account). This is clearly apparent on the tenements market, where citizens of EU and other countries are becoming evermore active.

Investment strategies specific for the tenements rental market:

- Speculation purchase – for rapid resale
- Investments in cash flows – a new owner becomes a renter rationally investing in the real estate
- Development investment – a new owner aims at executing the development, superstructure, adaptation of unused space for the purpose of the optimal usage of the real estate potential and the profit increases from its resale
- Branch investment, within which the tenement is rebuilt and adopts new functions, such as a guest-house, hotel with restaurant, office block, company seat, bank, school, medical service centre and others.
- The remaining investment objectives constitute a mix of the above – most often the new owner splits the real estates and resells a part until he gets the return on the invested capital, with the remaining part – the most profitable – allotted to let.

Graph 4.
Increase in Prices from 2003 to 1 April 2006
1m² of Usable Floor Space

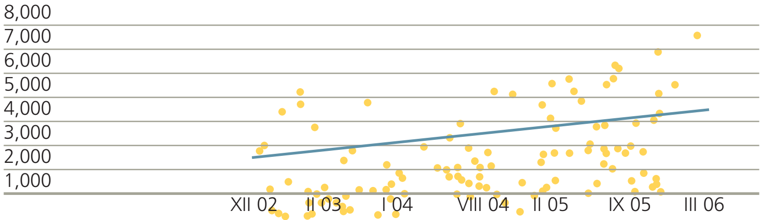
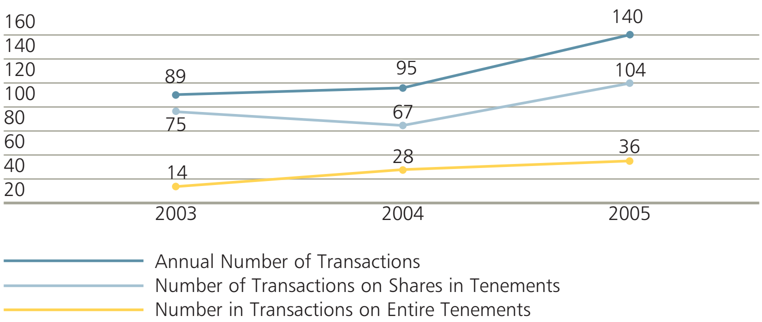


Table 19.
Tenement Market Trade in 2003-2005

	2003	2004	2005
Number of Entire Tenements Sold	14	28	36
Total Sales Value of Entire Tenements	PLN 38,379,307	PLN 50,653,349	PLN 94,196,852
Minimum Price for an Entire Tenement	PLN 222,000	PLN 285,000	PLN 180,000
Maximum Price for an Entire Tenement	PLN 8,282,670	PLN 5,110,255	PLN 8,500,000
Number of Sold Shares in Tenements	75	67	104
Total Value of Sold Shares in Tenements	PLN 22,448,853	PLN 21,288,402	PLN 44,305,150

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

Graph 5.
Number of Transactions on the Tenements Market



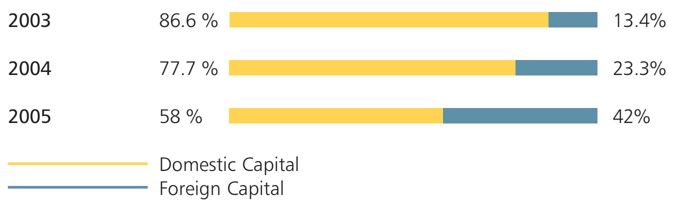
It is also appropriate to mention the emotional factors influencing a purchaser's behaviour. Recently, owning a tenement has became a means of raising one's prestige. Krakow itself has become a very fashionable place to live in, and this is a sufficient argument for many investors to buy a tenement.

Table 20.
Number and Value of Investments

		2003	2004	2005
Total	Number of Transaction	89	95	140
	Value	PLN 60,828,160	PLN 71,941,751	PLN 138,502,001
Foreign	Number of Transaction	4 (2 Whole Tenements)	12 (6 Whole Tenements)	36 (16 Whole Tenements)
	Value	PLN 8,140,231	PLN 16,032,877	PLN 58,213,532

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

Graph 6.
Capital Investment Structure



Conclusions / Trends:

- It is expected that the strong price increase on the tenement market in the years to come will be maintained, caused by infrequent tenement sales offers maintaining high demand.
- Change to the preferences of tenement purchasers is noticeable – at present the dominant purchasers are investors from the hotel branch willing to pay more than dwelling developers.
- The fashion for investments in historical real estate is returning, of which tenements constitute the majority. Investors acquiring historical tenements are trying to restore former splendour and give them a proper marketing dimension while taking advantage of the fashion for acquiring apartments with monumental interiors or adapting tenements for the purpose of a high standard small hotel.

4.5.1.

Single-Family Buildings in Krakow

Analysis of the single-family buildings market in Krakow includes the period between 2003 and the 1st quarter of 2006. It was prepared on the basis of collected data concerning all single-family building transactions made during this period and originates from the resources of the Institute of Analysis of The Real Estate Market Monitor **mrn.pl**.
A total number of 1,150 transactions of single-family buildings was recorded in the area of Krakow within the analysed period.

The highest number of transactions was recorded within the areas of Podgórze (app. 190 transactions per year) and Krowodrza (app. 110 transactions per year), where the single-family buildings are mostly located, the lowest number in the areas of Nowa Huta and Śródmieście (app. 25-30 transactions per year respectively). In tables 24 and 25 the number and total value of single-family building transactions in the analysed period is presented.

The majority of single-family buildings are located in Podgórze and the Krowodrza. The most valuable buildings are situated in Wola Justowska, Salwator and Zwierzyniec (Krowodrza), in which prices often exceed the limit of PLN 6 thousand per m^2 of usable floor space and on the Oficerskie and Olsza Housing Estates (the Śródmieście), in which prices reach a level of between PLN 5 and 6 thousand per m^2. The lowest prices were recorded within the housing estates adjoining to the industrial areas of Huta, in the north-western regions of the city (Wadów, Ruszcza, Branice, Wyciąże, Przylasek Rusiecki), in which the price per 1m^2 of a building in average condition does not exceed PLN 1.5 thousand. In the area of Podgórze the highest prices are recorded in Jugowice and on the Kliny Housing Estate, whereas the lowest are within the areas situated south of the southern beltway of Krakow.

Table 21.
Number of Single-family Building Transactions in Śródmieście, Krowodrza, Podgórze and Nowa Huta during the period between 2003 and the 1st Quarter of 2006

	2003	2004	2005	2006
Śródmieście	24	33	25	8
Krowodrza	108	105	115	17
Podgórze	191	191	196	46
Nowa Huta	25	30	31	4
Total	348	359	367	75

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

Table 22.
Total Value of Transactions concerning Single-Family Buildings in Śródmieście, Krowodrza, Podgórze and Nowa Huta during the period between 2003 and the 1st Quarter of 2006
in PLN mln

	2003	2004	2005	2006
Śródmieście	8.22	10.99	11.35	4.17
Krowodrza	41.59	46.14	67.5	9.53
Podgórze	31.64	58.75	68.36	15.11
Nowa Huta	5.3	5.64	8.24	0.59
Total	86.75	121.52	155.45	29.4

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

In the 1st quarter of 2006 the average price per single-family building in Krowodrza and Śródmieście approached the level of PLN 600 thousand, which constitutes a level of PLN 3,800 when converted to 1 m² of usable floor space of the building. In Podgórze the prices are usually in the region of 30% lower, in the area of Nowa Huta even 40 to 50% lower. The highest increase in prices between 2003 and the 1st quarter of 2006 was recorded in the areas of Krowodrza and Śródmieście – prices of the buildings grew by approximately 50% over the given period. At the same time, the increase in prices in the Podgórze and Nowa Huta areas was noticeably lower – a level of 15 – 25%.

Residences and high-standard buildings whose price exceeds PLN 1 mln are considered a relatively small section of the Krakow market. Only 29 such transactions were concluded during the analyzed period (including three transactions of over PLN 2 million). The highest price – PLN 2,260,000 for a house in the Bielany area – was recorded in 2005. Most buildings whose price exceeded PLN 1 million, are situated in Wola Justowska.

Table 23.
Number of Transactions and Trade (in million PLN) of Single-Family Buildings in the area of Krakow during the Period between 2003 and the 1st Quarter 2006

	2003	2004	2005	2006
Number of Transactions	348	359	367	75
Trade	86.75	121.52	155.45	29.4

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

Table 24.
Average Prices of Buildings and Prices per 1 m² of Usable Floor Space in Krakow, during the period between 2003 and the 1st Quarter of 2006

	2003	2004	2005	2006 – 1Q
Śródmieście				
Per Building	PLN 342.4 th.	PLN 333 th.	PLN 454 th.	PLN 520.9 th.
Per 1 m²	PLN 2,683	PLN 2,677	PLN 3,262	PLN 3,779
Krowodrza				
Per Building	PLN 385.1 th.	PLN 439.4 th.	PLN 586.7 th.	PLN 560.4 th.
Per 1 m²	PLN 2,542	PLN 3,217	PLN 3,532	PLN 3,791
Podgórze				
Per Building	PLN 280.7 th.	PLN 307.6 th.	PLN 348.8 th.	PLN 328.6 th.
Per 1 m²	PLN 1,942	PLN 2,213	PLN 2,422	PLN 2,429
Nowa Huta				
Per Building	PLN 211.9 th.	PLN 188 th.	PLN 266 th.	PLN 191.7 th.
Per 1 m²	PLN 1,529	PLN 1,434	PLN 1,619	PLN 1,742

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

Conclusions / Trends:

- Transactions of small buildings of a total space approximating 200 m² dominate in the segment of single-family buildings in the area of Krakow. This results in the relatively low average price of the buildings, which do not exceed PLN 600 thousand in the most attractive locations of Krowodrza and Śródmieście. The number of transactions of high-standard buildings and residences with prices exceeding PLN 2 million is extremely low. It may be concluded that the demand for such a type of real estate is negligible, taking into consideration the significant number of sales offers concerning buildings whose prices exceed PLN 1 million.
- The increase in prices of single-family buildings in Krakow in the areas of Krowodrza and Śródmieście during the period between 2003 and the 1st quarter of 2006 was comparable to the increase of the price of dwellings. A noticeably lower increase in prices was recorded in Podgórze and Nowa Huta.
- Forecasts concerning changes to the price of buildings in the near future depend mostly on changes in the real estate market. Taking into consideration the comparison between an apartment's price of usable floor space exceeding 100m² and the price of a single-family building, it is predicted that the increase in the price of buildings will be slightly higher than the increase in the price of dwellings, more so in that investments in this market segment are delivered for the most part by private investors and for their own needs. Property construction investments consisting in the development of single-family buildings are less profitable than the construction of multi-family buildings and, therefore, their number is significantly limited. This results in low supply, limited in principle to the secondary market, which may constitute an additional factor influencing price increase.

4.5.2.

Single-Family Buildings within the Metropolitan Area of Krakow

Research included five so-called poviats of the Małopolskie Voivodship: the Krakow, Chrzanów, Myślenice, Olkusz and Wielice poviats. A total number of 1,449 transactions of single-family building sales were made in these areas during the period between January 2004 to December 2005. The highest number of transactions was recorded in the Krakow poviat, i. e. 280 transactions in 2004 and 345 in 2005. The second most important poviat regarding the number of performed transactions was the Wielice Poviat – 174 transactions in 2004 and 244 transactions in 2005.

A comparison of the years 2004 and 2005 in relation to the sale and purchase transactions of real estate indicates a noticeable increase in both the number and value of the concluded transactions of the single-family buildings within all researched poviats. A total number of 605 transactions with a total value of PLN 96 million was made in 2004, whereas in 2005 the total number of 843 transactions with a total value of PLN 160 million was recorded, thereby confirming the high dynamics on this market.

The average value of transactions converting to 1 m^2 of the usable floor space was PLN 1,224 in 2004, whereas in 2005 it grew to PLN 1,437, constituting an increase of app. 17%.

The Krakow Poviat
A total number of 345 sale and purchase transactions of single-family buildings with a total value of PLN 82 million was recorded in the Krakow Poviat in 2005. The maximum price amounted to PLN 7,666 per 1 m^2, whereas the average price was PLN 1,755 per 1 m^2. The Krakow Poviat gained the top position in the attractiveness ranking of the of sub-Krakow towns. Facilities located approximately 20 to 25 km from Krakow are considered

Table 25.
Average Price per 1 m^2 of Usable Floor Space for Single-Family Buildings in Particular Quarters during the Period between 2004 and 2005 in the Krakow, Chrzanów, Olkusz, Wielice and Myślenice Poviats.

	1st Q.	2nd Q.	3rd Q.	4th Q.
Krakow Poviat				
2004	PLN 1,637	PLN 1,411	PLN 1,461	PLN 1,440
2005	PLN 1,656	PLN 1,906	PLN 1,686	PLN 1,781
Chrzanów Poviat				
2004	PLN 1,004	PLN 1,213	PLN 988	PLN 864
2005	PLN 1,041	PLN 1,221	PLN 1,254	PLN 1,273
Olkusz Poviat				
2004	PLN 705	PLN 855	PLN 824	PLN 784
2005	PLN 1,028	PLN 1,065	PLN 1,076	PLN 843
Wieliczka Poviat				
2004	PLN 1,669	PLN 1,117	PLN 1,371	PLN 1,597
2005	PLN 1,677	PLN 1,831	PLN 1,699	PLN 1,584
Myślenice Poviat				
2004	PLN 1,761	PLN 1,325	PLN 1,246	PLN 1,615
2005	PLN 1,242	PLN 1,614	PLN 1,244	PLN 1,923

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

to be the most desirable, in particular towards the north. Preference analysis of residential building purchasers indicates that the real estates located in Zielonki, Michałowice, Węgrzce, Bibice and Zabierzów as well as in Mogilany, Libertów and Mydlnica are most desirable.

Rząska and Zabierzów are the most expensive locations in the Zabierzów Commune. Michałowice and Masłomiąca remain highly popular in the Michałowice Commune. In the Mogilany Commune the buildings in highest demand are in Mogilany itself, as well as in Libertów, Liszki and in Gaj. The Zielonki Commune offers several attractive locations: Zielonki, Węgrzce and Bibice. Modlnica and Modlniczka are particularly popular in the Wielka Wieś Commune. Transaction prices confirm these observations. The highest unit prices per building were recorded in Libertów in 2005 – PLN 3 million 400 thousand and PLN 1 million 100 thousand, and in Giebułtów – PLN 2 million 400 thousand. These were the only three transactions among the analyzed data set whose value exceeded PLN 1 million. The value of the remaining transactions in the entire Krakow Poviat did not exceed PLN 1 million.

Maximum prices per 1 m^2 of usable floor space of a building in the researched period were recorded in Libertów – PLN 7,666 and in Zabierzów – PLN 7,333. The trend of price change estimated on the basis of the average prices taken from particular quarters (number of transactions: 625) indicates that in the years 2004-2005 the price of buildings increased by app. 12.5% per year.

The Chrzanów Poviat

A total number of 100 sale and purchase transactions of single-family buildings with a total value of PLN 9 million 462 thousand was recorded in the Chrzanów Poviat. The maximum price per 1 m^2 amounted to PLN 3,952, whereas the average price per 1m^2 of a building was PLN 1,238.

The highest price per building was recorded in Alwernia in 2005 – PLN 340 thousand. Alwernia, due to its proximity to Krakow and its landscape values, is of high interest among purchasers. The maximum price per 1 m^2 of usable floor space of a building (PLN 3,952) was also recorded in Alwernia. The trend of price change estimated on the basis of the average prices taken from particular quarters (number of transactions: 169) indicates that in the years 2004-2005 the price of buildings in the Chrzanów Poviat increased by app. 14.5% per year.

Table 26.
Trade and Residential Building Prices in the Krakow, Chrzanów, Olkusz, Wieliczka and Myślenice Poviats in 2004

Poviat	Number of trans.	Trade	Min. price per 1 m^2	Max. price per 1 m^2	Av. price per 1 m^2	Av. price per build.
Chrzanów	69	PLN 6.66 mln	233	2,065	1,032	96,477
Krakow	280	PLN 50.5 mln	100	7,250	1,480	180,369
Myślenice	39	PLN 7.69 mln	389	3,333	1,469	197,225
Olkusz	44	PLN 3.44 mln	139	1,961	785	78,094
Wieliczka	174	PLN 27.67 mln	138	3,957	1,351	159,023
Total	606	PLN 95,96 mln	199	3,713.2	1,223	142,237.6

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

Table 27.
Trade and Prices of Residential Buildings in the Krakow, Chrzanów, Olkusz, Wielice and Myślenice Poviats in 2005

Poviat	Number of trans.	Trade	Min. price per 1 m^2	Max. price per 1 m^2	Av. price per 1 m^2	Av. price per build.
Chrzanów	100	PLN 9.46 mln	133	3,952	1,238	94,621
Krakow	345	PLN 81.95 mln	167	7,666	1,755	237,537
Myślenice	96	PLN 16.04 mln	300	3,641	1,500	167,128
Olkusz	58	PLN 5.86 mln	143	2,455	1,015	101,027
Wieliczka	244	PLN 46.59 mln	222	4,754	1,677	192,531
Total	843	PLN 159.91mln	193	4,493	1,437	158,568.8

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

The Olkusz Poviat

In 2005 there were 58 sale and purchase transactions of single-family buildings recorded in total and their total value amounted to PLN 5 million 860 thousand. The maximum price amounted to PLN 2,455, whereas the average price per 1 m^2 of a building was PLN 1,050. The trend of price change estimated on the basis of the average prices taken from particular quarters (number of transactions: 102) indicates that in the years 2004-2005 the price of buildings in the Olkusz Poviat increased by app. 15.5% per year.

The Wieliczka Poviat

A total number of 244 sale and purchase transactions of single-family buildings with a value of PLN 46 million 592 thousand was recorded in the Wieliczka Poviat in 2005. The maximum price per 1m^2 amounted to PLN 4,754, whereas the average price per 1 m^2 of a building was PLN 1,677. The trend of price change estimated on the basis of the average prices taken from particular quarters (number of transactions: 419) indicates that in 2004-2005 the price of buildings in the Wielice Poviat increased by app. 12.5% per year.

The Myślenice Poviat

A total number of 96 sale and purchase transactions of single-family buildings with a total value of PLN 16 million 044 thousand was recorded in the Myślenice Poviat in 2005. The maximum price per 1 m^2 amounted to PLN 3,641, with the average price per 1m^2 of a building being PLN 1,500.

The highest price per building was recorded in 2005 in Stróża – PLN 900 thousand. The maximum price per 1m^2 of usable floor space was recorded for a building located in the Krzyszkowice area and amounted to PLN 3,641. The trend of price change estimated on the basis of the average prices taken from particular quarters (number of transactions: 135) indicates that in the years 2004-2005 the price of buildings in the Myślenice Poviat increased by app. 5% per year.

Conclusions / Trends:

- Purchaser Preferences: Buildings with a usable floor space approaching 200 m^2 are the most in demand, both newly-developed or constructed after 1990, to a modern standard and with a price amounting to approximately PLN 800 thousand per building. For the largest group of purchasers the most appealing price per building varies between PLN 350 and 550 thousand. The number of such real estates on the market, especially those meeting the above-mentioned conditions is, however, relatively low. In the event of selling, exposure time ranges between half a year and one year. If such a building is additionally located in the direct vicinity of Krakow, such a transaction may be considered a great opportunity. Buildings developed in the 1970's and the 80's, usually of poor-quality materials, with little regard for economic principles and of poor architectural values are considered to be the least attractive.
- At present, prices amounting to PLN 700 – 800 thousand per building constitute a psychological barrier for the majority of purchasers along with – from the practical point of view – the economic obstacles connected with the maintenance of such buildings and the financial capacity of purchasers. Residential buildings of a total value exceeding PLN 1 million, of residence-like nature and with large usable floor space, are almost impossible to sell and therefore seldom constitute a subject of transaction. The fashionableness of residence-like sites, developed a few years ago, has already passed. At present, even the best placed customers are taking economic matters into consideration. Furthermore, customers who have ready cash exceeding PLN 1 million prefer to purchase a plot and develop a building according to their individual requirements rather than purchase a second residence. Exposure time of such real estates on the market is quite long and ranges to approximately 2 years.
- The most numerous group of transactions in the researched set are buildings whose price varies between PLN 350 and PLN 550 thousand, and with a unit price approximating to PLN 2,000 – 3,000 per m^2 of usable floor space. This is the level acceptable to the majority of purchasers. In this range, supply is slightly lower than demand.
- Over the last few months, the price of residential buildings has slowly risen compared to the price of plots and dwellings. Due to the fact that the opportunity of purchasing a dwelling in Krakow of a reasonable price continues to decrease, it is to be expected that a portion of purchasers will invest in small residential buildings situated in Krakow's surroundings, recognizing them as an alternative to premises within the city area. A more dynamic increase in the price of such real estates has recently been noted.

5.

Land

5.1.

Land in Krakow

In 2005, the value of concluded real estate transactions in Krakow amounted to approximately PLN 1.7 billion. In the 1st quarter of 2006 this amount was PLN 379.5 million.
Land transactions constitute approximately 20 – 25%. Both the number and value of land transactions have tended to increase over the last few years. Most transactions concern the property right trade; sales of the right of land perpetual usufruct constitutes only 10% of the total number of concluded sales agreements.

A strong trend in price increase has been noticeable on the land market since the end of 2003. After the first-quarter records in 2006, the average price per 1m^2 of land was almost 100% higher than the year 2003.

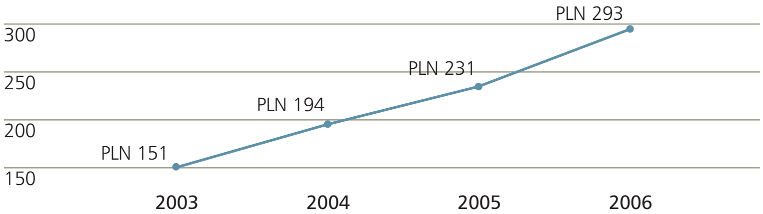
The majority of land trade constitutes plots indented for single-family residential construction. The number of such plots sold has been constantly increasing – they constitute approximately 40% of the total number of land transactions over the last two years. This is caused by the increase in the price of dwellings and the improvement in competitiveness of building investments compared to dwelling premises investments. The price of plots intended for single-family residential construction and construction of low intensity, located within the area of the central districts of Krakow, is constantly growing. This increase is significantly lower within the areas situated on the right bank of the Vistula River and practically non-existent in the area of Nowa Huta. This results mostly from the increasing number of transactions on non-expensive plots located on the eastern and south-eastern outskirts of the city. Paradoxically, the expiry of the General Spatial Development Plan for the City of Krakow created a development opportunity for a part of former arable lands due to the "go-

Table 28.
Number of Transactions and Land Trade in Krakow between 2003 and the 1st Quarter of 2006

	2003	2004	2005	2006
Number of Transactions	890	1,100	1,100	225
Trade in PLN mln.	281	368	380	92

Source: Institute of Analysis, The Real Estate Market Monitor ***mrn.pl***
* the above data does not include land purchased by the Municipality and the State Treasury and related to road infrastructure investments

Graph 7.
Average Price per 1m^2 of Land in Krakow between 2003 and the 1st Quarter of 2006



od neighbourhood" principle in force and applicable in the event of issuing a decision on land development conditions in the areas not included in the local spatial development plans. A plot intended for a single-family building was to be purchased at the price of from PLN 20 per 1 m^2 of land.
The highest price per plot intended for low-intensity development – exceeding even PLN 1,000 per 1 m^2 – was to be paid in Wola Justowska.

The most dynamic development was recorded on the market of land intended for multi-family residential construction. Each plot located in Śródmieście or Krowodrza on which such construction was possible, reached a price exceeding PLN 500 per 1 m^2. The prices of a majority of plots located in the direct vicinity of the downtown, particularly within the second beltway of the city centre (between Trzech Wieszczów Avenue and Dietla Street), in the area situated between Kościuszki and Wrocławska Streets, in Kazimierz as well as in the old part of Podgórze (the area of Kalwaryjska Street) reached the level of a few thousand PLN per 1m^2. The highest prices were recorded for ready to invest plots – with an issued decision on land development conditions or even building permits. Since 2003 approximately 15 – 20% of all plots designated for high residential construction and commercial buildings have been sold in such a way.

A lack of non-developed land in parallel with the high demand for plots intended for residential and commercial construction in the downtown area has become a market mechanism which has resulted in the launch of the revitalization process of post-industrial areas located in the direct vicinity of the city centre. There are already highly-specialized companies operating on the market and providing investors with services including the preparation and execution of investments in post-industrial areas. The most recognized examples of the revitalization of old sites in Krakow are as follows:

- The Kazimierz Shopping Mall (Galeria Kazimierz), developed on the area of a former meat plant – operated in Grzegórzki up to 1997
- The Zakopianka Commercial and Entertainment Centre, developed on the area of the former Solvay plant in the direct vicinity of the Borek Fałęcki
- The University of Andrzej Frycz Modrzewski, developed on the areas of the Polish Railways and military unit in the Zabłocie

Other areas currently in the course of the revitalization process are the following:

- The surroundings of the Main Railway Station, the site of the dynamic development of an investment including commercial, office and service functions on an unprecedented scale

Table 29.
Price of Land Intended for Single-Family Residential Construction (of Low Development Intensity) within the Area of Krakow

	2003	2004	2005	2006 (I-IV)
Śródmieście	215 PLN/m^2	250 PLN/m^2	311 PLN/m^2	Not Recorded
Krowodrza	195 PLN/m^2	223 PLN/m^2	260 PLN/m^2	300 PLN/m^2
Podgórze	85 PLN/m^2	115 PLN/m^2	114 PLN/m^2	110 PLN/m^2
Nowa Huta	55 PLN/m^2	60 PLN/m^2	80 PLN/m^2	55 PLN/m^2

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

Table 30.
Price of Land Intended for Multi-Family Residential Construction (of High Development Intensity) within the Area of Krakow

	2003	2004	2005	2006 (I-IV)
Śródmieście	710 PLN/m^2	860 PLN/m^2	1,700 PLN/m^2	1,870 PLN/m^2
Krowodrza	450 PLN/m^2	726 PLN/m^2	776 PLN/m^2	806 PLN/m^2
Podgórze	280 PLN/m^2	295 PLN/m^2	500 PLN/m^2	510 PLN/m^2
Nowa Huta	230 PLN/m^2	175 PLN/m^2	200 PLN/m^2	Not Recorded

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

- The Schindler plant in Zabłocie, in which the modern sites intended for cultural, commercial as well as services and office functions will be developed within the old industrial sites
- The areas of the former Okocim Brewery located on Lubicz Street – work on using the site for residential and service purposes is currently under way
- The old power station situated on Wawrzyńca Street in Kazimierz
- 6 ha remaining from the Measuring Appliances Plant in Krakow on Zapolskiej Street
- 10 ha remaining from the WSK Plant on Wrocławska Street
- The military areas on Rakowicka Street
- The area located on Cystersów and Fabryczna Streets – including the territories of the former Vehicle Transport Company (PKS) base
- The areas remaining from the "Wawel" confectionery plant in the area of the Kotlarskiego roundabout
- The Vistula plants in Zabłocie
- The old "Miraculum" plant in Zabłocie

These are the most recognized large-area investments within the city. Most may be created due to the development of the new transport system in its direct surroundings, and by decisions issued by the Municipal Office aimed at the revitalization of degraded areas within the Local Revitalization Program. So far, "The Revitalization Program of Post-Industrial Zabłocie" has been prepared, which is the largest and the most attractive for the purposes of these activities.

The significant disproportion between the price of land intended for residential and commercial investments and the price of industrial land is conducive to the revitalization of post-industrial areas. These areas are situated for the most part on the outskirts of the city (the Rybitwy area in Podgórze and the areas between the Krakow Combined Heat and Power Plant and the Mittal Steel Combined Collective). Industrial investors are increasingly recognizing the attractive locations belonging to the Krakow Special Economic Zone – for the most part in Niepołomice – as well as plots situated in the direct vicinity of smaller towns such as Skawina. Large industrial plots located in these areas may be purchased for prices ranging from PLN 20 per m^2.

Conclusions / Trends:
The situation of the residential market and the growing demand for commercial space has resulted in an anticipated increase in the price of land over the next few years. An increase in the price of land intended for single-family residential construction is estimated in the near future. This results from the significant growth in the price of dwellings, which when compared to current land prices and construction work costs have exceeded the level at which the cost of a building development has become comparable to the cost of a dwelling.

An increase in the price of land which may be designated to commercial investments (office buildings, hotels) and to multi-family residential construction is seen as inevitable. The demand for dwellings, which has been constantly growing since 2003, has caused a significant increase in the price of these lands. An increase in the number of transactions whose price per 1 m^2 of a land exceeds PLN 1,000 is to be expected in relation to the significant demand for office and hotel space, the potential location of which covers, for the most part, the location of residential investments.

5.2.

Land in the Metropolitan Area of Krakow

In recent years the constantly increasing price of land in Krakow has significantly influenced the dynamic movement of the market in sub-Krakow towns. Other than Krakow, the communes of the Krakow, Wielice and Myślenice Poviats remain at the centre of investor interest.

In the years 2003-2006, a systematic increase in the number of concluded transactions (Table 31) was observed and, as a result, a surge in the growth of trade on the non-developed land real estate market occurred. In the majority of communes, the amount of total trade in 2005 increased threefold compared to 2004 and in some (Wielka Wieś, Niepołomice) by as much as five times. On the basis of data from the 1st quarter of 2006 it is to be forecast that the current year will close with even higher trade (Table 32).

The highest number of transactions was recorded in the municipalities of Wieliczka and Niepołomice, as well as in the Zabierzów Commune and the largely agricultural Kocmyrzów – Luborzyca Commune. The areas with the least active market were the Sułoszowa Commune located within the protection zone of the Ojcowski National Park and the largely agricultural Igołomia – Wawrzeńczyce and Słomniki Communes.

The majority of transactions within the analyzed area concerns land intended for single-family residential construction and homestead construction. The second most numerous group are transactions of land located within agricultural or green areas. Other, infrequent transactions concerned those concluded on land of a service – commercial or industrial nature and intended for multi-family residential construction. This group of transactions is seldom concluded and appears only within urban areas or in a number of sub-city communes.

Table 31.
Number of Transactions

	2003	2004	2005	2006 (I-IV)
Krakow Poviat	1,627	1,826	2,113	811
Wieliczka Poviat	454	816	936	444
Total	2,081	2,642	3,049	1,255

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

Table 32.
Total Trade in PLN mln

	2003	2004	2005	2006 (I-IV)
Krakow Poviat	69.68	123.32	185.46	56.08
Wieliczka Poviat	13.90	22.63	86.65	35.85
Total	83.58	145.95	272.11	91.93

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

The reason is the lack of supply for such land subject to the provisions of local spatial development plans.

The most numerous group of transactions and that with the fastest growth in prices are transactions of land intended for residential construction. A similar situation is seen in communes without spatial development plans. Areas located in the direct vicinity of the urban areas (thus potentially enabling development) have also been characterized by a significant increase in price. The average unit price of plots varies from less than PLN 13 per m^2 in the Sułoszowa Commune to approximately PLN 81 per m2 in the Wielka Wieś Commune, and concern both the areas intended for development in total and agricultural – building plots (Table 33). The price of standard plots of an area between 7 and 10 are, designated to single-family construction is even higher.

The majority of investments within single-family construction in the sub-city areas is developed by individual investors. A few developers located their investments mostly in the area of the Zielonki, Michałowice, Zabierzów, Mogilany, and Wieliczka Communes, directly adjoining Krakow. The highest prices for building land are recorded in these towns.

The constant growth in the price of land intended for residential construction has resulted in current offer prices significantly exceeding the transaction prices recorded at the beginning of this year. For an attractively located, 7-15 are plot designated for single-family building development, sellers now expect to obtain no less than PLN 25 in the least expensive communes, located furthest from Krakow and approximately PLN 160 in the Michałowice and Wielka Wieś Commune, and even PLN 210 in the Zabierzów Commune.

A significant factor determining the price level, resulting from the risk level in land investments intended for construction investment development, is the local spatial development plan implemented in the commune. The most dynamic development was recorded in the towns in which the local plans were first approved, and their prices significantly exceed the price level in the towns of similar location and wealth but with no local spatial development plans present.

To date (as of July 2006) most communes have completed or partially completed spatial development plans (Table 34).

Table 33.
Average Price of Land Intended for Residential Construction in PLN

	2003	2004	2005	2006
Kraków Poviat				
Czernichów	13.01	17.20	24.73	27.74
Igołomia-Wawrzeńczyce	7.21	7.39	10.25	15.03
Iwanowice	14.56	18.19	19.63	25.18
Jerzmanowice-Przeginia	18.25	20.03	18.42	19.47
Kocmyrzów-Luborzyca	16.36	27.16	27.17	28.75
Krzeszowice	14.31	15.97	19.64	23.86
Liszki	15.91	18.23	32.37	42.93
Michałowice	22.96	34.07	45.32	51.09
Mogilany	39.38	45.27	47.38	77.12
Skała	13.77	14.45	15.87	19.03
Skawina	18.61	19.61	37.26	39.47
Słomniki	10.06	12.19	20.02	23.57
Sułoszowa	5.20	5.81	12.46	12.92
Świątniki Górne	26.56	26.19	35.64	42.39
Wielka Wieś	34.29	48.70	63.36	80.81
Zabierzów	41.95	47.88	58.31	72.32
Zielonki	55.97	58.66	74.64	78.40
Wielice Poviat				
Biskupice	15.61	14.54	18.36	18.96
Gdów	10.92	14.76	16.84	18.16
Kłaj	11.35	12.10	12.97	14.44
Niepołomice	20.85	22.95	32.43	36.36
Wieliczka	29.31	31.95	38.81	39.46
The Myślenice Poviat				
Myślenice	31.45	33.46	35.77	40.57

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

Table 34.
Local Spatial Development Plans

Krakow Poviat	
Czernichów	Partial
Igołomia-Wawrzeńczyce	Partial
Iwanowice	Completed
Jerzmanowice-Przeginia	Partial
Kocmyrzów-Luborzyca	Completed
Krzeszowice	Partial
Liszki	None
Michałowice	Completed
Mogilany	Completed
Skała	None
Skawina	None
Słomniki	None
Sułoszowa	None
Świątniki Górne	Completed
Wielka Wieś	Completed
Zabierzów	Partial
Zielonki	Partial
Wielice Poviat	
Biskupice	Partial
Gdów	Partial
Kłaj	None
Niepołomice	Completed
Wieliczka	Completed

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

Industrial Areas, Special Economic Zones

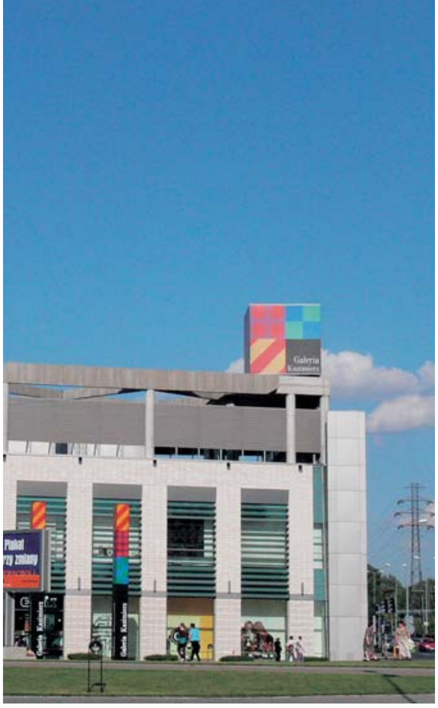
At present, the best-developed sub-Krakow business and industrial centre is Skawina, which has advantageous transport connections with Krakow and Silesia. The rapid development of Niepołomice and Zabierzów is to be expected in the near future due to the fact that under the Ordinance of the Council of Ministers of 14 September 2004, a special economic zone was located in areas. In Niepołomice the total zone area is 140,866 ha, the majority of which is taken up by the MAN company's investment. Companies developing software and accounting centers as part of the so called BPO (Business Process Offshoring) have invested in Zabierzów. Independently, in special economic zones, many companies, especially those located in the direct vicinity of the highway junctions (Balice, Skawina and Targowisko), possess land intended for industrial and office-warehouse sites construction. The price in this group of real estates varies between PLN 15 per 1m^2 in Niepołomice to PLN 150 in Zabierzów and Balice.

Agricultural Areas

The highest trade in real estates of a largely agricultural nature takes place in communes located furthest from Krakow, particularly in the areas situated in the northern and eastern part of the Krakow Poviat (Słomniki, Igołomia-Wawrzeńczyce and Kocmyrzów-Luborzyca) as well as the surroundings of Gdów and Dobrzyce in the Wielice Poviat. Unit prices for arable land range from PLN 1 and PLN 10 per 1 m^2, baring in mind the fact that the price is usually inversely proportional to the distance from Krakow.

Conclusions / Trends:

- The most active land real estate market constitutes the northern and western communes of the Krakow Poviat (Zabierzów, Zielonki, Kocmyrzów-Luborzyca, Liszki and Michałowice), the north - western areas of the Wielice Poviat (Wieliczka, Niepołomice) and the northern part of the Myślenice Poviat (Myślenice, Siepraw).
- Unceasing demand and the relatively slow growth in supply will influence a further systematic increase in the price of land in the surroundings of Krakow over the next few years.



6.

Retail Space

A constant development of the retail space market in Krakow has been observed over the last few years. Starting with the first investment from a national investor in 1995 – the KrakChemia site – total retail space in present day centers will reach the level of 420 thousand m^2 by the end of 2006. The Krakow Gallery with its total space of 60,000 m^2 will be delivered in September 2006.

In relation to the type of stores and space, the market may be divided into the following sectors:

- Shopping Malls: The Kazimierz Shopping Mall (Galeria Krakowska), investor Globe Trade Centre (GTC); total retail and entertainment space exceeds net 36,000 m^2, including multi-cinema; Krakow Plaza occupies more than 40,000 m^2 of space, including more than 150 stores and boutiques and a cinema with 9 cinema auditoriums, as well as IMAX screen, bowling alley, disco and pool; The Krakow Gallery will occupy a total space of 60,000 m^2
- Food Industry Superstores: Carrefour (3), Tesco (2), Kaufland, Real (2, including Geant, recently taken over by the company)
- Construction Industry Superstores: Castorama (3), Obi (2), Praktiker, Leroy Merlin (2, including one located in the direct surroundings of Krakow)
- Cash and Carry Sites (Makro Cash&Carry and Selgros)
- Large-Area Delicatessens: Alma (2 including one free-standing), Bomi
- Supermarkets: Albert, Tesco, Champion, InterMarche, Elea
- Discount Stores: Biedronka, Plus, Lidl
- Local Network Stores: ABC, Aldi, Avita (franchise network), Spar, Jubilat, Lewiatan, Żabka, Kefirek
- Stores Located along Main Streets in the Downtown
- Other Single Retail Space.

Table 35.
Modern Retail Space in Krakow

Market Segmentation	Space in m^2
Shopping Malls	140,000
Delicatessen	7,000
Superstores	108,000
Cash and Carry	30,000
Construction Superstores	80,000
Supermarkets	18,000
Discount Stores	15,000
Local Stores Network	22,000
Total	420,000

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

Slower dynamics from the superstores has been observed over the last few years. Superstores within the city of Krakow adjoin to shopping malls, thereby creating shopping centers of inter-district importance e.g. the Zakopianka Shopping Centre, the M1 Shopping Centre, the Krokus or Czyżyny Shopping Centers.

Compared to other cities, the number of large--space sites in Krakow is average.

The Supermarkets market has developed slightly differently to other cities as a result of the high price of commercial land and spatial planning restrictions. There are no free-standing commercial sites developed through light steel construction technology in Krakow. Only a few such investments were recorded in Krakow in previous years (Elea, Champion, Kaufland). At present, the operators of commercial networks are beginning to look for space located on the ground floor of residential buildings or in local shopping centers (Champion – Łokietka Street, Albert – Lea and Bobrzyńskiego Streets)

The Discount Stores market, the characteristic feature of which is a limited range of goods at relatively low prices, is subject to significant changes, having taken into consideration the increase of customer demand for the quality of service and goods on offer. Differences between supermarkets and discount stores are gradually beginning to disappear. This trend is most noticeable in the Biedronka network, which has successfully re-modeled its stores.

Large-space delicatessens (Piotr i Paweł, Bomi) present in larger agglomerations, are new on the commercial real estate market in Krakow. The Alma Market company was the first, launching its delicatessen in the Kazimierz Gallery (Galeria Kazimierz) in 2005. A nation-wide Bomi network will soon join them. The development of the new large-space delicatessen formula has resulted from the increased prosperity of customers from agglomerations and their willingness to purchase high-standard products, often unavailable in traditional markets.

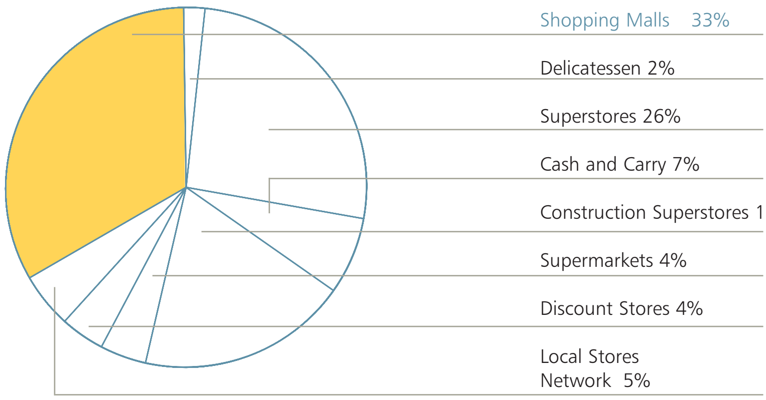
Local network stores continue to maintain their strong position on the commercial real estate market. A number of commercial sites were developed on the basis of groceries existing from the 1980's e. g. (the ABC network taken over by Polo Market). Over the last few years many stores have been developed as a result of the adaptation of premises intended for other functions – good examples are the Kefirek and Żabka stores.

Table 36.
Comparison of Indicators for Large-Space Stores

Year	Number of Inhabitants per 1 Site	Retail Space (in m²) of Commercial Sites per 1 km of the City Area	Retail Space (in m²) of Commercial Sites per 1000 Inhabitants
2004	28.5	713.5	314.7
2005	28.5	807.7	356.4

Source: Report on the City 2005

Graph 8.
Modern Retail Space in Krakow – Market Share



In light of the restrictions in the development of commercial networks, it is noticeable that market polarization has occurred and has mainly resulted in the takeover of these networks, which have decided to limit or liquidate their activity on the local or national market. This process is seen on the Krakow commercial real estate market on the basis of the following takeovers:

- The ABC network by the Polo Market in 2006
- The Julius Meinl network by Tesco in 2005

On the nationwide market:

- The Leader Price network by Tesco in 2006
- The Geant superstores by the Metro Group in 2006

Since the Krakow real estate market indicates a deficiency of commercial sites, almost all of the network commercial companies present in Poland have scheduled new investments within the shopping centers, superstores and supermarkets.

Selected shopping centers investments:

- Solvay Park Gallery – 105 Zakopiańska Street, 23,500 m^2 of total space, site under construction – due to open: April 2007
- TriGránit intends to develop a commercial centre in Krakow on the site of the former "Bonarka" Chemical Plant
- Neinver is preparing to construct a commercial centre in the direct vicinity of the A-4 highway with a total space of 15,000 m^2 – due to open in 2007.

Average rental rates recorded on the real estate market:

- Large-Space Delicatessen: EUR 10 + EUR 2 per Service
- Supermarkets: from PLN 30 per m^2 (Raw State Space Rental) to PLN 54 per m^2 (Turnkey Solutions Space Rental)
- Discount Stores: EUR 7-9 per m^2
- Local Stores: PLN 20-30 per m^2
- Stores in Shopping Malls – prices depending on area and main tenants (e.g. food industry operator) and the size of the shopping mall. Prices vary from PLN 70-130 per m^2 in small shopping malls located next to supermarkets and PLN 80-200 per m^2 in recognized shopping malls.
- Stores Located along Main Pedestrian Routes within the Old Town (Floriańska, Szewska, and Grodzka Streets): PLN 150-400 per m^2.
- Stores Located along Main Streets in the Downtown (Karmelicka, Zwierzyniecka, Długa, Starowiślna, Stradom and Krakowska Streets): PLN 80-200 per m^2.

The Municipality of Krakow and housing cooperatives are important counterparts on the retail space market. The resources of municipal premises amounts to approximately 170,000 m^2 – situated for the most part on the ground floor of residential buildings and some rented on a non-commercial rate basis. The Municipality is gradually reducing the number of concluded agreements of such a nature.

Conclusions / Trends:

- Further investment in this field is to be expected, taking into account the low ratio of modern retail space compared to the number of inhabitants
- Further foreign investments in this service sector are scheduled
- Rental rates will be strongly diversified and will depend on the attractiveness of the location
- Rent increases in the area of the Old Town are to be expected due to the growing influx of tourist to Krakow.

7.

Warehouse Space

The warehouse market in Krakow is poorly developed. A growing demand for warehouse space has arisen over the last few years in parallel with low supply.

The existing warehouse space in older, low--standard buildings (for the most part in the area of Rybitwy, Zabłocie and Nowa Huta) were previously sufficient to meet demand and limited the development of new investments. In terms of the dynamic economic growth and revitalization of post-industrial areas within the city centre, the amount of warehouse space has turned out to be insufficient. This has created conditions for the activity of developers, signing long-term rental agreements and constructing warehouses according to the specific orders of companies. New warehouse sites are willingly rented due to the adjustment of their construction to the current preference for the high storage of goods (hall height and load capacity of flooring).

New warehouse investments are usually located along Krakow's beltway, surrounding the city from the south, starting at Balice, via Skawiny and the Opatkowice junction to Wieliczka; and in the vicinity of the main roads out of Krakow, e.g. towards Zakopane. The surroundings of the northern beltway of Krakow towards Warsaw are also considered an attractive location. Large, non-developed areas intended for new logistic and warehouse centers are currently in demand. A new warehouse investment with a total space of 11,000 m^2 has been created in the Rybitwy area, and new sites will be developed in Skawina and Modlnica.

The average rental price per older warehouse site located in the Krakow area amounts to net PLN 10-16 per m^2. Rent for sites of a higher--standard amount to approximately PLN 20 per m^2. In the case of newly-developed sites, prices vary between EUR 4 and 5 per m^2.

It is the simplest to rent a warehouse with a total space exceeding 300 m^2, as there is a high demand recorded for sites with a total space of between 1,000 and 2,000 m^2 and warehouses with a space exceeding 3,000 m^2. No significant changes in rental prices of warehouse space have been recorded over the last 3 years, although the rate of capitalization and vacancy space decline, connected with the increase in value of such real estate, has been observed.

Analysis of sale and purchase transactions of real estate of a mainly warehouse function, revealed in notarial acts since the beginning of 2003, is as follows:

95 transactions were recorded in the city of Krakow: 40 in 2003, 27 in 2004, 28 in 2005; one transaction was completed in the 1st half of 2006. These were:

a) 16 transactions in the north – western areas of Krakow, with the highest price per industrial real estate located on Conrada Street amounting to PLN 3.1 million; real estate situated in the western areas of Krakow in the surroundings of Mydlniki were sold most often (in the vicinity of a beltway)

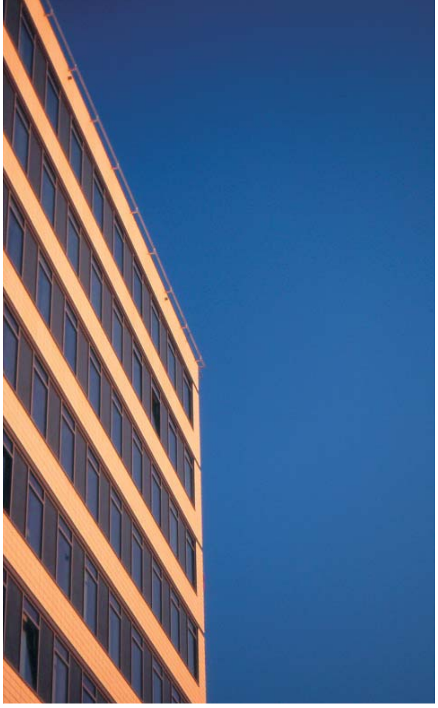
b) 25 transactions in Nowa Huta, with the highest price amounting to PLN 7.75 million in the area of a metallurgic combined collective. Most transactions were concluded for the area of the Łęg.

c) The most transactions – 48 – were concluded in the southern districts of Krakow. PLN 6.5 million was paid for a real estate developed with warehouses and located in the Rybitwy area. Transactions on real estates situated in Rybitwy and next to Zakopiańska Street were noted.

d) 5 real estates located in central districts changed hands, including 3 in the area of Fabryczna and Cystersów Streets. Purchased real estates were of industrial and warehouse nature, although taking into account the high value of land and the advantageous location in relation to Krakow's downtown, they were purchased for the development of commercial and residential investments.

Conclusions / Trends:

The scheduled development of the transport network of Krakow, in particular the development of the S-7 national road, intended to complete the city's beltway from the north and west, as well as the scheduled development of the A-4 highway (the Krakow – Tarnów section), will contribute to the improvement of Krakow's attractiveness as a warehouse base location. Considering the low supply of modern warehouse space in Krakow, significant investments in this market section are to be expected in the next few years. However, the lower supply of small warehouses connected with relocation of companies' seats from the city centre and the revitalization of post-industrial areas encourage the prediction of an increase in rental rates for warehouse space in the short-term.



8.

Office Space

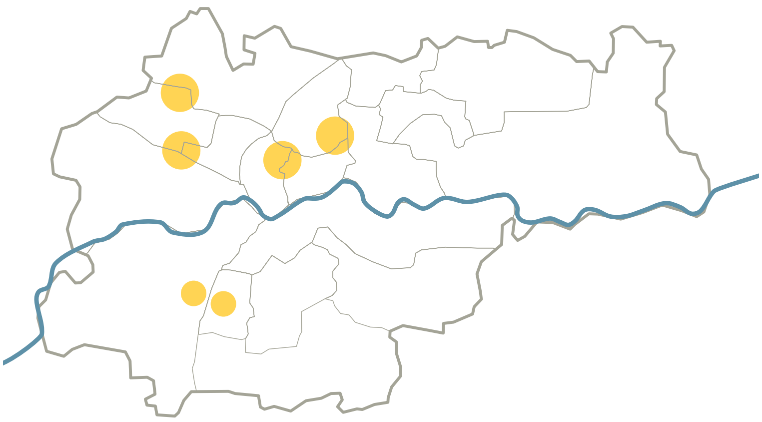
Office Market in Krakow – Rent*

The supply of modern office space (class A and B buildings) designated for rent in the capital city of Małopolska is estimated to be approximately 128,000 m². An alternative for potential tenants are the high-standard offices offered in renovated tenement houses in the heart of the city. This available space is estimated to be approximately 35,000 m².

Due to the historical nature of Krakow's downtown and the limited number of plots intended for commercial construction, office buildings located in the city centre constitute no more than 30% of modern office space and are usually small or shared projects (e. g. office and commercial). Office investments located outside Krakow's downtown include more than 100,000 m² of space in total (72% of existing resources).

Areas of Office Space Concentration in Krakow:

- The eastern part of the city centre including the surroundings of the Polish Railways (PKP) railway station, the Mogilskie Roundabout and the Grzegórzeckie Roundabout. The following are located in this area: The Lubicz Office (11,800 m²), Nowa Kamienica (3,500 m²), Pliva (2,700 m²), the Cracovia Business Centre (13,550 m²), Lobos (1,000 m²) and an office building situated on Kielecka Street (700 m²). Galeria Krakowska (The Krakow Gallery) is currently under construction. Office space is estimated to be 5,500 m² in the first stage of the project, whereas in the second stage it will acquire approximately 20,000 m². Moreover, an office section with a total space of 10,000 m² is scheduled to be constructed within the second stage of the Kazimierz Shopping Mall (Galeria Kazimierz) in the direct vicinity of the Grzegórzeckie Roundabout.



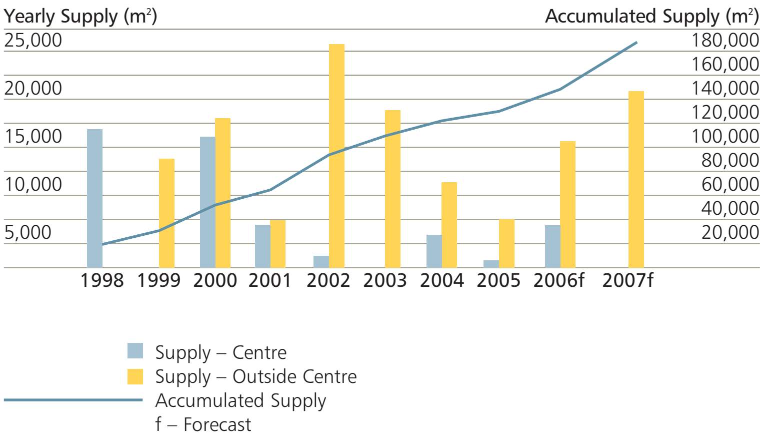
*Source: Knight Frank

- The surroundings of the Ofiar Katynia Roundabout are currently the most dynamically developing area of a commercial nature in Krakow. The following office buildings are situated in this area: Euromarket (10,150 m²), Impol (3,100 m²), Mirex (3,600 m²), two office buildings of the Intercorps company (4,200 m²), the Centrum Jasnogórska (1,600 m²) and the Sosnowiecka Office Centre (1,150 m²), and an office building owned by the Bitcomputer company (1,800 m²) which is currently under construction.
- The "Czyżyny" Special Economic Zone with its rapidly developing high-tech sector. This is the location of the seats of such companies as: AMK Kraków, Comarch, AzSoft, Pfaffenhain Polska Sp. z o. o. and Linde Gaz. Rental space is available in the Copernicus office building (4,300 m²). Construction of the Krakow Technology Park office building intended for rent (3,000 m²) and the Software Park office building (12,000 m²) is also scheduled in this area.
- The surroundings of Armii Krajowej Street located in the north-western part of Krakow, in which several modern office buildings are situated: GTC Galileo (10,000 m²), Zasada Centrum (2,900 m²), the seat of the Solidex company, and the second stage of the GTC office complex – the Newton building (10,000 m²), which is currently in progress. It is due for completion in March 2007.
- Łagiewniki – Ruczaj / Zaborze – an area which has attracted the attention of the IT and professional services sectors, who do not find it necessary to be located within the city centre. The following office buildings are situated in the area: Buma Square (26,500 m²), the Colosseum office and commercial building (4,840 m²) and the seat of Motorola Polska, educational facilities of the Jagiellonian University and the Pontifical Academy of Theology.

A decrease in the operations of developers within the office sector was noticeable in the years 2004-2005 – only a few buildings, with approximately 3,500 m² of space were delivered. As a result, and taking limited new supply and growing demand into account, the level of vacancies recorded at the end of the second quarter of 2006 fell to 2.9%, reaching a historical low.

The growing interest of foreign investors in Krakow and the almost total lack of available office space has encouraged developers to undertake new investments. 11,200 m² of office space was delivered in the first half of 2006, the amount being twice that of the whole of 2005. Furthermore, 4 office buildings located in the capital city of Małopolska are currently under way and will increase the available space by 26,500 m² in 2007.

Graph 9.
Supply of Office Space



These developments notwithstanding, there remains a noticeable excess of demand over supply on the Krakow office market. As a result, most of the space has already been rented, even in projects currently in progress. Growing demand has been recorded since 2004. It is worth noting that only a few thousand square metres of office space were rented in Krakow in previous years, whereas tenants required approximately 34,000 m^2 in the first half of 2006 alone. It should be emphasized that among rental transactions concluded within the last half-year, approximately 80% were concluded as pre-let agreements, which have been rare on the Krakow market until now. This increase in demand, unparalleled in any regional market, confirms the high attractiveness of Krakow to investors and the good business conditions in this sector of the real estate market. The highest demand was recorded among IT and professional services sector companies, similar to previous years.

In 2005, rental rates in buildings of the highest standard reached the level of between EUR 13.5-15 per m^2 per month. At present, 100% of existing class-A buildings are being rented whereas the space in constructions in progress is offered at lower prices of EUR 13-14 per m^2 per month. The lack of available space in the highest-standard buildings has caused a slight increase in rental rates in the B and B+ – class office buildings, in which rental rates amount to EUR 10-14 per m^2 per month. Rents in renewed tenement houses depend on their standard and location and vary between EUR 9 and 15 per m^2 per month.

This rapidly developing market has attracted new counterparts interested in both undertaking new projects and investment purchasing on the local office market.

Office Space – Sales*

In 2003, 19,000 m^2 usable office floor space were sold at a price of PLN 34 million. In 2004 this amount doubled and was sold at a price of PLN 85 million resulting in a lack of offers on the secondary market.

With this in mind, the amount of office real estate sold in 2005 was less than half the amount in 2004. The limiting of supply and the high demand for purchasing office real estate caused a significant price increase in the years 2003-2005 – by as much as 40% per year. (Such high growth was mainly caused by changes in the sales structure – less expensive buildings intended for general renewal were sold in 2003, whereas the buildings of higher technical standard (more expensive) were sold in 2004.

Table 37.
Volume of Sales of Office Real Estates and Rate of Capitalization

Year	Usable Floor Space of Sold Premises and Office Buildings	Volume of Sales of Office Real Estates	Rate of Capitalization [Net Annual Income / Sales Price] The Old Town	Outside Centre
2003	PLN 18,8 th.	PLN 34 mln	10%	13%
2004	PLN 49,2 th.	PLN 85 mln	9%	12%
2005	PLN 29,2 th.	PLN 89 mln	8%	11%
2006*			7%	10%

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

** Data for 2006 will be summarized in 2007, the rate of capitalization was extrapolated on the basis of data for years 2003-2005 and the outcome was verified on the basis of single sales recorded in 2006.*

Institute of Analysis, The Real Estate Market Monitor* ***mrn.pl*

The main factor influencing such a dynamic development of the real estate market in Krakow during this period was the strong conviction among investors of further increases in real estate prices resulting from differences in prices between Poland and western countries. It was also bolstered by the fact that buyers decided to purchase office real estate with a relatively low rate of capitalization which, during the period between 2003-2006, dropped from 10 to 7% for office real estates located in the historical city centre. In 2005 and 2006 tenement houses designated for offices and located within the historical city centre were sold at a price amounting to approximately PLN 8 thousand per m^2 of usable floor space, with the rate of capitalization amounting to only 5%. In this situation the purchaser may expect both income on the rent of the real estate and additional income on further, forecast increase in real estate prices.

To compare the attractiveness of locations in the historical city centre and areas situated outside the centre, the prices of real estate sold in the years 2003-2006 were adjusted to 2006 using the growth indicator of real estate prices. The historical city centre remains the most expensive. The average price of an office building updated in 2006 amounted to approximately PLN 7 thousand per m^2 of usable floor space, whereas the price of an office premise located in a historical tenement house was PLN 10 thousand per m^2 of usable floor space. The average price of office real estate situated outside the historical city centre is two times lower, primarily as a result of the low price of real estate located in Nowa Huta (the eastern part of the city) and Podgórze (the southern part). Much more attractive are Krowodrza and Śródmieście. A further reason is the sale of old and low-standard buildings, designated for renewal and located outside the city centre.

Table 38.
Prices Office Space

Average Price of an Office Building Updated in 2006 (PLN per m^2 of Usable Floor Space)	
The Old Town – Centre	7,000
Outside the Centre	2,800

Average Price of an Office Premise Updated in 2006 [PLN per m^2 of Usable Floor Space]	
The Old Town – Centre	10,000
Outside the Centre	4,700

Average Rental Rate for Office Space in 2006 [PLN per m^2 per Month]	
The Old Town – B Class	50-60
Outside the Centre – A Class	50-70
Outside the Centre – B Class	30-60 (40)

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

9. Hotel Market

It is estimated that Krakow's tourist provision includes approximately 25,000 nightly accommodation opportunities.
More than 50% of hotel beds and more than 50% of hotel rooms are located in three-star locations.

Krakow is the Polish leader in relation to hotel sites. Hotels are concentrated mainly in the area of the historical city centre, especially in the surroundings of the Planty, and in Kazimierz. These are the locations of the majority of hotels operating in historical, modernized or adapted tenement houses.

In July 2006, there were 97 hotels operating in Krakow, offering 8,987 beds in total. The highest market share is taken by three-star hotels which, considering a number of beds, represent approximately 50% of the market.

The sector focusing on business customers and affluent tourists (five- and four-star facilities) has developed dynamically in the last few years, reflected in the construction of new high-standard sites and the modernization of those already existing.

Six five-star hotels have opened their doors within the last 3 years – either newly-developed or modernized. The number of four-star hotels has also grown. The Qubus hotel joined those existing at the end of July 2006. Five-star and four-star hotels possess in total more than 20% of beds and 25% of rooms.

Beds in two-star hotels constitute 22% of the total number of hotel beds, whereas their rooms amount to 19%. The standard of two-star sites varies significantly.

Table 39.
Krakow – Classified Sites (State as of July 21, 2006)*

Hotels	92
Guest-Houses	6
Motels	2
Camping	3
Youth Hostels	2
Excursion Houses	2

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

** Hotels applying for classification, regarding increased standards and the construction of new hotel facilities in the middle of 2006 were not included.*

Table 40.
Number of Hotels and Guest-Houses in Krakow as per Category:

	2003	2004	2005	1st Half 2006
Hotels				
5*	0	3	4	6
4*	8	8	7	7
3*	39	44	50	53
2*	13	17	18	20
1*	7	6	6	6
Guest-Houses				
3*	2	2	2	2
2*	5	4	3	3
1*	0	0	1	1
Total	74	84	91	98

Source: The Voivodship Office of the Małopolskie Voivodship

Judging by data from the Małopolska Tourist Organization, the hotel scene of Krakow is extensive and diversified:

- Restaurants are located in 83% of sites
- 82% own a conference room
- 73% have recreation facilities
- 89% have parking space, including 48 sites with parking space intended for coaches

The scene differs in the area of recreation facilities. A sauna is offered by 26 hotels, fitness facilities by 12, swimming pool by 11, gym by 9, a solarium by 7, and jacuzzi by 5. When compared to the general number of hotels, this may be seen as insufficient.

Most sites accept payment cards – 93% and pets – 84%. Still under-represented is quality provision for people with disabilities – 67% of the hotel base is adjusted for the needs of the disabled.

Excursion houses, youth hostels and camping complete the accommodation base together with hotels and guest-houses.

The highest proportion of accommodation usage is recorded in top category hotels, and the lowest in the one-star hotels. The highest proportion of room usage is recorded in tree-star hotels.

The lowest occupancy rate and the highest losses were recorded by hotels in 2002, a result of the lower intensity of tourist traffic after the terrorist attacks in the United States. Over the following few years tourist traffic has grown constantly in Poland and globally. Krakow has become a world-wide tourist centre in the last 2 years. Since Poland's accession to the European Union in 2004, business tourism connected with new investment inflow to Krakow has grown significantly. A sudden increase in recreational tourism, connected for the most part with the historical value of the city and its surroundings (Oświęcim, Wadowice, Wieliczka), as well as religious tourism, the target of which are sites visited by John Paul II and the Sanctuary of Divine Mercy in Łagiewniki, has been recorded since the middle of 2005.

The investment market of tourist sites is becoming more dynamic every year. At present, more than 30 hotels and twice as many other tourist facilities are being created. Approximately 50 motions on the construction of new hotel sites have been submitted. The adaptation of dwellings for the purposes of the extremely popular "apartments to let" should be included in the total number of new investments. The most recognized sites to be delivered are: the Stary Hotel on Szczepańska Street (five-star scheduled, 57 rooms) located in a historical tenement house and the Poleski Hotel, situated under the Royal Castle on Wawel Hill.

Table 41.
Number of Beds and Rooms in Hotels in Mid 2006:

Category:	Beds	Rooms
5*	1,414	906
4*	618	390
3*	4,887	2,697
2*	2,113	1,021
1*	573	281
Total:	9,605	5,295

Source: The Voivodship Office of the Małopolskie Voivodship

Table 42.
Usage of Accommodation and Rooms in Hotels in Krakow in 2002 – 2005

	2002	2003	2004	2005
Accommodation (%)	36.8	37.8	44.0	53.9
Rooms (%)	42.8	41.1	50.3	62.1

Source: Statistical Bulletin of the City of Krakow 2003, 2004, 2005

Table 43.
In 2005 accommodation usage in particular site categories was as follows:

	Accomodation Usage Level in %	Rooms Usage Level in %
Sites – total	50.2	61.1
Hotels, Motels, Guest-Houses – total	52.7	61.1
Hotels – total	53.9	62.1
Including		
***** Category	64.0	61.3
**** Category	57.6	60.1
*** Category	55.3	65.5
** Category	46.9	61.3
* Category	45.2	43.6
In the course of classification	42.6	52.8
Motels – total	33.9	44.7
Including		
** Category	33.9	44.7
Guest-Houses – total	25.7	33.1
Including		
*** Category	38.0	36.6
** Category	31.7	46.7
In the course of classification	10.9	15.6

Source: Central Statistical Office

A number of dormitories in Krakow are transformed into hotels during the summer season (e.g. the two-star "Piast").

Many existing Krakow hotels are in the course of general renewal and modernization in order to increase their standard, such as the Grand Hotel – one of the oldest in Krakow – which has obtained its 5th star. In 2005 newly-developed private hotels opened in the city centre – the "Pod Wawelem" (tree-star) and "Gródek" (four-star), and further hotel investments are scheduled. Aside from the new hotel networks entering the market, a popular activity among national and foreign investors has involved the purchase of tenement houses located at the Main Market Square and transforming them into hotels and guest rooms of a high standard.

Table 44.
Hotel Prices in Krakow as per Category (in EUR)

Hotel Category	5*	4*	3*	Price Increase 2005/2004
Single Room	145-220	62-187	46-155	9.4 %
Double Room	199-245	85-212	56-165	9.4 %
Apartment	350-420	110-300	70-253	9.4 %

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

Table 45.
Number of Newly-Developed Hotels in Years

	2002	2003	2004	2005	1st Half. 2006
5*			1		1
4*		1	1		2
3*	5	10	7	4	4
2*	3	2	3	2	1
1*		2			
Total:	8	15	12	6	8

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

Conclusions / Trends:

- A high occupancy rate for accommodation and hotel rooms in Krakow is forecast for 2006 / 2007
- A stabilization of current prices is forecast in the near future, following a strong, three-year increase in hotel service prices
- Growth trends in the number of foreign tourists visiting the city will be maintained in the foreseeable future, although the results will depend on the capacity of the Balice airport

Information about the Authors

The **Real Estate Market Monitor mrn.pl Analyses Institute** associates analysts and certified property valuators, providing consulting services in the area of Krakow and the western Małopolska real estate market.

The Institute's mission is to enhance the development of real estate market research and the promotion of services in the field of analyses and consulting. It is provided in the highest content and ethical level, as well as arbitration and mediation in real estate market-related cases.

The Institute aims at developing an integrated monitoring system for real estate transactions, scheduling works of analysts and advisors team, and disseminating professional consulting services in the area of real estate market.

In order to achieve these objectives, the Institute administers its own http://www.mrn.pl internet site, improves standards, principles and the organization of monitoring for real estate market transactions, and prepares regular analyses for particular sectors in the banking and financial market. Its activities also include regular conferences aimed at the presentation of current real estate market-related reports, conducting and supporting the professional development of the Institute's members as well as arbitration and mediation.

The following members of the The Real Estate Market mrn. pl Analyses Institute are the co-authors of the Krakow Real Estate Market 2006:

- Krzysztof Bartuś (tenement buildings market, hotel market)
- Bożena Choła (single-family buildings market in the sub-Krakow communes)
- Jarosław Czerski (retail space market)
- Maciej Grabowski (land market in Krakow)
- Dr Władysław Egner (warehouse space market)
- Wojciech Kobierski (secondary dwellings market)
- Piotr Krochmal (revitalization of post-industrial areas in Krakow)
- Dr Alicja Malczewska (land market in the metropolitan area of Krakow)
- Dr Piotr Mika (warehouse space market)
- Maria Noworól (hotel market)
- Dr Małgorzata Petry-Węcławowicz (secondary dwellings market)
- Jarosław Strzeszyński (land market in Krakow)
- Dr Gabriela Surowiec (land market in the metropolitan area of Krakow)
- Maciej Wójcik (retail space market)
- Dorota Włodarczyk (single-family buildings market in the sub-Krakow communes)
- Jarosław Zygmunt (office space market)
- Dr Robert Zygmunt (office space market)

Information about the Authors

The **Krakow Real Estate Service dominium.pl** (http://www.dominium.pl) is being developed by Friscom s. c. (a private partnership company) with its registered seat at 21 Mazowiecka Street in Krakow.

This is the first Internet-based real estate service in Krakow and has been present on the local market since 1999. The number of visitors exceeds 60,000 per month, whereas the number of hits are more than one million. Each month, **dominium.pl** sends more than 1,000 queries to people interested in real estate purchases in the Małopolskie Voivodship area.

The website includes the largest database of new investments, residentials and buildings offered in Krakow (approximately 2,000 properties) and a few thousand real estate offers from the secondary market. More than 80 developers, several dozen real estate agencies and large nation-wide banks cooperate with **dominium.pl** on a regular basis.

Thanks to a database of available offers and a long-term of experience, the **dominium.pl** team provides consulting services and prepares real estate market-related expert analyses and reports.

The **Knight Frank Sp. z o.o.** is the Polish subsidiary of Knight Frank Group, one of the largest independent full-service real estate firms in the world. Knight Frank Group and its New York-based partner Newmark Knight Frank operate from over 140 offices in established and emerging property markets on 5 continents with a combined staff of 4,500. The team at KF has been operating in Poland for over 15 years.
We offer an inter-disciplinary array of service lines as follows:
- Investment and finance raising
- Corporate finance
- Property and asset management
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- Valuations
- Research

We have offices in Warsaw and major regional cities in Poland.

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authors: Real Estate Market Monitor mrn.pl Analyses Institute
Krakow Real Estate Service dominium.pl
Knight Frank

Edited by: Beata Górska-Nieć
Marcin Gajownik

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