Krakow Real Estate Market 2008

> offices
> hotels
> warehouses

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Average currency exchange rates are published every day on the website of the National Bank of Poland (http://www.nbp.pl).

Measures

Used In Poland
1 ar = 100 sqm = 0.01 hectare (ha)
1 hectare = 10 000 sqm = 100 ars (ar)

Used in English speaking countries
1 acre (UK) = 40.47 ars (ar) = 0.40 hectare (ha)

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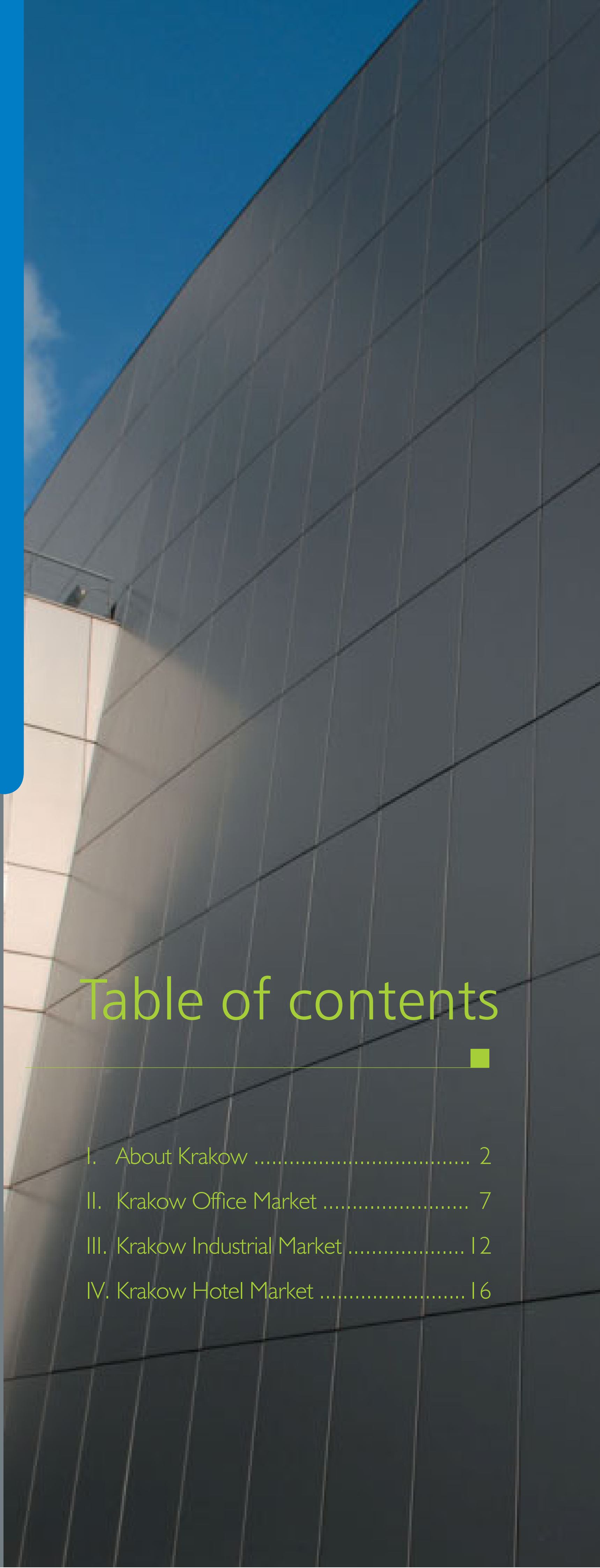

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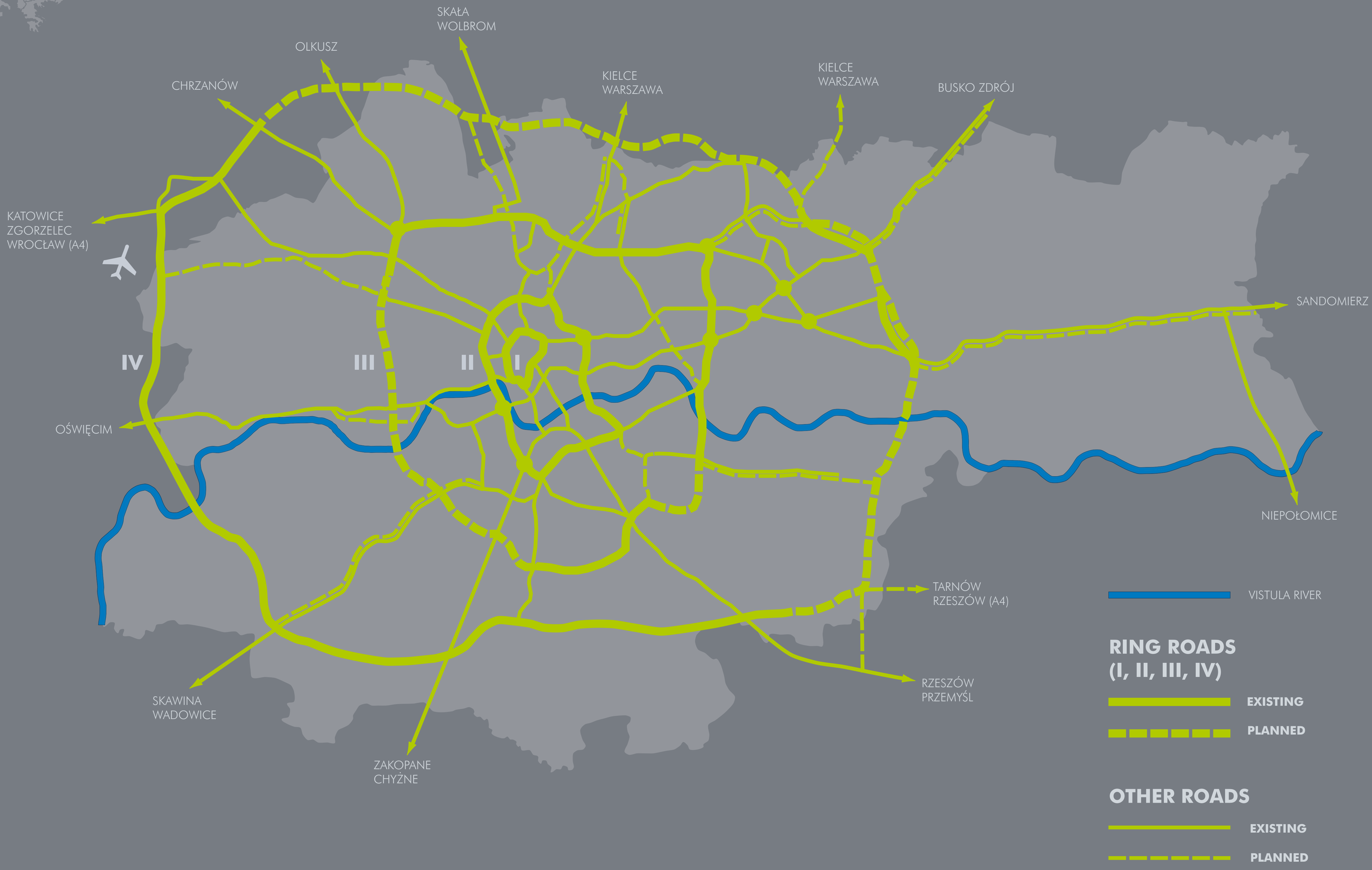
map infrastructure development



Dear Sir/Madam,

I am pleased to present you our latest publication, 'Krakow Real Estate Market 2008 – Offices, Warehouses, Hotels', showing the changes that have taken place recently in the Krakow commercial real estate market. I am convinced that this report will constitute a helpful tool providing plenty of useful information to all persons interested in the economic development of Krakow and its investment opportunities.

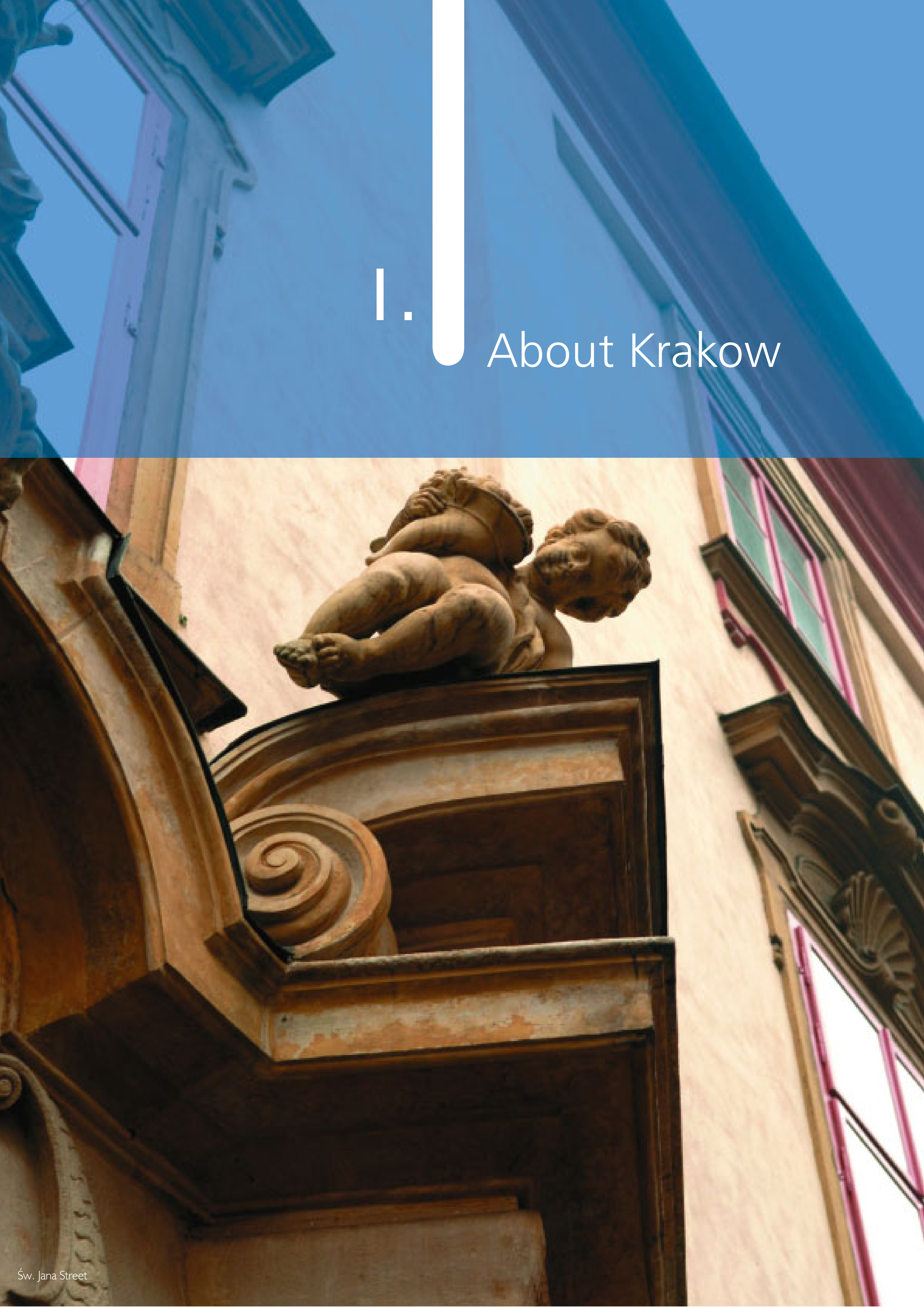
Together with the publishing house's partner, Colliers International, we made all possible efforts to collect proven and reliable data for you in one publication, which allows further and profound analysis of the real estate market and lets us answer the following question: is the Krakow commercial real estate market going to face a slowdown, recession or maybe a crisis?

I strongly believe that reading our report will give you an opportunity to broaden your knowledge about Krakow and will become a favourable premise of economic activeness of our market, to which I sincerely invite you.

Let's create the future!

Monika Piątkowska
Director of the City Strategy and Development Department
Krakow City Office

I. About Krakow



Św. Jana Street

- Total area: 327 km^2
- North-South axis: 18 km
- West-East axis: 31 km
- Average annual air temperature: 8.4°C
- Annual precipitation: 833 mms (in 2007)

Krakow is located in the southern part of Poland, at the crossing of the main communication routes connecting the Baltic Sea with the south of Europe, as well as those connecting Western and Eastern Europe (Frankfurt – Kiev).

Location, transport

There are three main transit roads passing through Krakow:

- A-4 motorway following the route Legnica – Wrocław – Katowice – Krakow – Tarnów – Rzeszów, connects Krakow with the Silesian agglomeration and the Western border. In the future it will reach Lvov in Ukraine.
- national road No 7 following the route Gdańsk – Warszawa – Krakow – Chyżne,
- national road No 4 following the route Zgorzelec – Wrocław – Gliwice – Olkusz – Krakow – Tarnów – Przemyśl.

Communication with the world is possible thanks to one of the largest airports in Poland – John Paul II International Airport Krakow-Balice. It directly serves approx. 7,900,000 inhabitants within a radius of 100 kilometres from Krakow. Since 2005 a large proportion of passenger traffic has included regular international traffic. Krakow Airport ensures direct domestic connections and international connections with a large number of cities in Europe and North America.

Krakow also constitutes an important junction of railway connections. Every hour, from the Krakow Główny railway station, there are various Intercity trains departing to Warsaw. The journey takes about 2 hours and 40 minutes. Moreover, the railway network enables fast travel to Gdańsk and to other Central European cities: Vienna, Prague, Bratislava, Berlin and Budapest.

The municipal transport system in Krakow consists of a bus and tram network, supported by private microbus lines. There are works in progress on building the Integrated System of Common Transport. Its previous phase finished in 2008 when the first line of the Krakow Fast Tram came online. The Fast Tram connects the Northern and Southern districts of the city with the city centre. According to the rankings of the prestigious magazine 'Forbes', Krakow city transport was ranked as number 9 (among 84 researched cities) in a ranking of cities having the best systems of municipal transport in the world.

Table 1.

Operation of the John Paul II International Airport Krakow-Balice

	2006	2007	30.06.2008
Number of departures and arrivals	39,322	40,269	19,999
Number of passengers served	2,367,257	3,068,199	1,442,459
Weight of transported loads (t)	3,438	3,801	2,104

Source: Statistical Office in Krakow

Population

According to area and population, Krakow is the second biggest city in Poland. The number of inhabitants has been growing constantly, and the population growth ratio in 2008 was positive. The high level of births and fewer deaths in the previous quarter led to a significant (for a Polish city) population growth in the 3rd quarter, reaching 1.8‰.

Over 1,500,000 people live in the suburban area.

Table 2.

Internal growth of population in Krakow

	2006	2007	30.06.2008
Births	6,640	6,640	1,863
Deaths	6,919	6,755	1,753
Population growth	-279	-412	110

Source: Statistical Office in Krakow

Table 3.

Population and areas of the largest Polish cities

City	Population 30.09.2008	Area (km²)
Warsaw	1,710,076	517
Krakow	**756,744**	**327**
Łódź	749,013	293
Wrocław	632,960	293
Poznań	558,946	262
Katowice	310,829	165

Source: Statistical Office in Krakow and Regional Data Bank of GUS (Central Statistical Office of Poland)

Table 4.

Population of Krakow – age groups

		2006	2007	30.06.2008
Population overall	Overall	756,267	756,583	756,441
	Men	353,739	353,922	351,816
	Women	402,528	402,661	402,625
Pre-working age	Overall	120,293	118,505	117,639
	Men	61,611	60,693	60,282
	Women	58,682	57,812	57,357
Working age[1]	Overall	501,892	501,634	500,922
	Men	249,572	250,491	250,509
	Women	252,320	251,143	250,413
Retirement age	Overall	134,082	136,444	137,880
	Men	42,556	42,738	43,025
	Women	91,526	93,706	94,855

[1] Working age – 18-64 years for men and 18-60 years for women

Source: Statistical Office in Krakow

Kupa Street

Higher education, scientific and research centres

Krakow – a city of 4 universities – is the second academic centre in Poland, right after Warsaw. Almost 11% of all Polish students study in its 24 institutions of higher education, academies and universities. This proportion increases every year. In the scientific and research community, 12.7% of all research employees are employed in Krakow. Every year the number of Krakow university graduates increases.
Co-operation of higher education institutions with research and development units and companies conducting their activity in the field of high technology is leading to the establishment of research and development centres in Krakow (Centres of Advanced Technologies, Centres of Excellence, Centres of Technology Transfers).

Modern technologies, outsourcing

In 1998 the three largest high education institutes of Krakow - the Jagiellonian University, Krakow University of Technology and the Krakow Academy of Mining and Metallurgy – together with the Municipality of Krakow, Tadeusz Sendzimir Steelworks and the State Treasury, represented by the Provincial Governor, established the Special Economic Zone. Nowadays Krakow is regarded a city in which the high technology sector is developing dynamically, and the SEZ attracts serious investors from this industry.
Another sector of economy that is developing dynamically in Krakow is outsourcing. According to a ranking compiled by the advisory companies Global Services and Tholons, Krakow was granted fifth place among the most attractive cities in the world when it comes to outsourcing investments.

Table 5.

Population migrations

	2006	2007	30.06.2008
New inhabitant registrations, including:	7,507	7,478	1,127
From abroad	427	427	120
Departure announcements, including:	6,682	7,120	1,274
To abroad	427	336	65
Migration balance	825	358	-147

Source: Statistical Office in Krakow

Table 6.

Number of students, graduates and academic staff

	2005	2006	2007
Number of students			
In Poland	1,926,100	1,953,832	1,937,404
In Krakow	186,357	192,076[1]	209,109[1]
Krakow share (%)	9.68	9.83	10.79
Number of graduates			
In Poland	384,000	391,465	410,107
In Krakow	32,466	36,883	51,9881
Krakow share (%)	8.45	9.42	12.67
Academic staff			
In Poland	66,973	85,767	97,672
In Krakow	11,061	11,124	12,392
Krakow share (%)	16.52	12.97	12.68

[1] Together with post-graduate students and PhD students
Source: universities, academies and the Statistical Office in Krakow

Wawel Castle

Wszystkich Świętych Square

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

- Kraków w liczbach [Krakow in Numbers] publication http://www.bip.krakow.pl/?mmi=6353 (available in Polish and in English)
- Biuletyny Statystyczne Miasta Krakowa [Krakow Statistical Bulletins] http://www.bip.krakow.pl/?sub_dok_id=708 (available in Polish and in English)

Unemployment

In 2008 unemployment in Krakow was one of the lowest in Poland. The unemployment rate at the end of September was only 2.8% (in the Lesser Poland province it constituted 7.0%, and 8.9% nationally).

Rating mark

Since 1997 Krakow has been graded annually by the international rating agency Standard and Poor's. In 2008 Krakow was the first city in Poland to be granted a higher mark of credit worthiness – from 'BBB+' to 'A–'.

Tourism

The outstanding beauty and climate of Krakow attracts great numbers of tourists, including many from abroad. The city is among the most frequently visited places in Poland and Europe. The readers of the prestigious UK daily newspaper 'The Guardian' chose Krakow as the second most interesting city in the world in 2008.
According to estimates, in 2008 Krakow was visited by almost 7,500,000 people, including 2,150,000 from abroad. There were 6,000,000 tourists (people who stayed in Krakow for at least one night), including 2,100,000 from abroad.

II. Krakow Office Market

Grzegórzecka Street

Krakow Office Market – executive summary

The Krakow office market is one of the most developed regional markets. As in other major cities, the office market started to develop here at the end of the 1990's. The last three years has been a time of a dynamic expansion. Currently the total stock stands at approx. 232,000 sqm of modern office space[1], of which 20,000 sqm was delivered in 2008. Apart from small additional supply, 2008 was characterized by exceptionally low vacancy level. The rental rates have remained high due to the limited new supply added to the market and high demand for office space, with many tenants signing pre-lease agreements in order to secure space.

A record new supply of almost 150,000 sqm is planned for 2009. Although almost half of the space is already leased, such large supply will cause a rise of vacancy rate and stop a further increase of rents.

Supply

Today the Krakow office market has nearly 232,000 sqm of high quality space, which equates to 6% of the nationwide stock. As much as ¼ of the city's stock was delivered in 2007, which was a record year in terms of new office space being delivered to the market (58,000 sqm).

The largest office buildings in Krakow are: Eurocentrum (15,870 sqm), Cracovia Business Center (13,000 sqm) and Lubicz Office Center (13,260 sqm). However, as much as 40% of the total stock is concentrated in three office parks: GTC Korona, Buma Square and Krakow Business Park in Zabierzów. Each of them has approximately 30,000 sqm.

[1] All the buildings included within this stock are class A or B class buildings, over 1000 sqm, partially or entirely leasable, have been delivered (newly built or extensively renovated) during the last decade, and offer many or all features expected in modern office facilities.

In 2008 five projects of total volume 20,000 sqm were delivered to the market:

Rondo Business Park (2nd phase)	Q2 2008	8,050 sqm
Zawiła 65d	Q2 2008	2,300 sqm
New floor in Galeria Kazimierz	Q3 2008	2,085 sqm
Onyx	Q4 2008	6,000 sqm
Biurowiec Wschodni Alstar	Q4 2008	1,550 sqm

Source: Colliers International

Krakow does not have what can be described as a central business district, and currently only 10% of modern office space is located in the city centre with older refurbished buildings being adapted for the purpose.

Development of modern office space is concentrated mainly in three principal zones:

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

The Czyżyny district is also worth mentioning here as it is an important area for investment in the Krakow Special Economic Zone, as well as being the location of the Krakow Technological Park and Zabierzów, where an office park is located with its own railway station.

Planned supply

In 2009 a real supply boom is expected. The total volume of delivered office space could reach as much as 150,000 sqm. Projects planned for 2009 are already under construction with 50% of this space secured by pre-lease agreements. It is expected however, that completion of some projects may be delayed and not be delivered on schedule. Some of the projects scheduled for the last quarter of 2009 might be completed in 2010.

In the first quarter already two projects by local developers will be completed: M65 Meduza (4,630 sqm) and Portus (5,850 sqm). Delivery of a small building (2,400 sqm) on ul. Wielicka 72 is planned by the first or second quarter of this year. In the second quarter of 2009 two further phases of the Krakow Business Park (14,500 sqm each one), Etiuda (10,600 sqm) and a small project on ul. Opolska (2,370 sqm of office space) are also due to be completed. Moreover in the second half of the year delivery of the following projects is expected: Diamante Plaza (10,000 sqm), Lubicz II Office Center (5,600 sqm), the next building in GTC complex – Pascal (5,250 sqm), and a building on ul. Mosiężnicza 1 (1,310 sqm). At the end of 2009 also the completion of Vinci (18,720 sqm), the first phase of Buma's complex Quattro Business Park and the first phase of Trigranit's Bonarka City Center (2 buildings totalling 15,000 sqm) is also scheduled for the end of 2009.

Two projects that are also due to be completed in 2009, are already fully leased – Avatar (12,500 sqm) and Kazimierz Office Center (14,700 sqm).

Table 1.

Office buildings planned for 2009

Building	Location	Total office space (sqm)
M65 Meduza	ul. Mogilska 65	4,630
Wielicka 72 (2nd phase)	ul. Wielicka 72	2,400
Krakow Business Park 1000	ul. Krakowska 280	14,500
Portus	ul. Kamieńskiego 51	5,850
Krakow Business Park 800	ul. Krakowska 280	14,500
Opolska	ul. Opolska/ul. Mehoffera	2,370
Etiuda	ul. Pilotów 2	10,600
Kazimierz Office Center	ul. Podgórska	14,700
Diamante Plaza	ul. Dekerta 24	10,000
Lubicz II Office Center	ul. Lubicz 23	5,600
Mosiężnicza 1	ul. Mosiężnicza 1	1,310
Pascal	ul. Armii Krajowej	5,250
Avatar	ul. Lea	12,500
Bonarka City Center	ul. Puszkarska	15,000
Quattro Business Park (1st phase)	ul. Bora Komorowskiego /Lublańska	12,000
Vinci Office Building	ul. Opolska	18,720

Source: Colliers International

Demand

Krakow is becoming one of the key 'Business Process Offshoring' cities in the region of Central & Eastern Europe, and this has an influence on the level of demand on the office market.

Companies such as: Electrolux, IBM, Philip Morris, Shell, Capgemini, International Paper, Hewitt Associates and State Street have decided to locate their service centres here.

Due to the high number of well-educated graduates Krakow is also an attractive location for the R&D sector, shown by ABB, Delphi Automotive Systems, Lurgi, Motorola, Pliva, and Google who have all opened their research and development centres here.

During the last two years the share of the financial sector demanding office space has increased significantly. The largest lease agreement in the Krakow office market was signed by a tenant from this sector – on the last day of 2007 a lease agreement between Echo Investment and Fortis Bank for 12,000 sqm in the planned Avatar building was signed.

The global financial crisis will definitely impact banks' ideas of expansion, but the BPO sector should continue to grow, encouraged by a large office supply coming onto the market in the next two years.

In 2008 also a prominent share of pre-lease agreements in the demand has been noticeable. The largest agreement of this kind was a lease of 11,600 sqm of office space by State Street in GTC's Kazimierz Office Center.

Vacancy

Until 2005 the vacancy levels in Krakow offices were two digits. However, during the last 3 years it has fallen significantly because of weak supply and high demand. In 2006 the vacancy rate fell to 4% and at the end of 2007 it was below 1%. In January 2008 it reached a record low of 0.2%, but at the close of 2008 the figure stood at 1.8%. However it should be stated, that the all the new space that came onto the market that year was leased. Because of such high new supply in 2009 we can expect an increase of vacancy rates.

Grzegórzecka Street

Nadwiślańska Street

Rents

Monthly rents in new A class buildings are approximately EUR 15-17 per sqm and rents in projects due to be delivered in 2009 are at similar level of approx. EUR 15-18 per sqm.
The large new supply will restrain the increase of rent rates. Tenants pre-committing to the large amount of planned space should be able to achieve favourable rental levels.

Summary

- One of the most developed regional markets
- Very low vacancy rate
- Many projects under construction
- High number of pre-lease agreements
- Tenants include BPO centres and many companies from the financial sector

Krakow office market against other Polish cities

In terms of both, supply and demand, Krakow and Wrocław are more highly developed compared to other regional markets, followed by Tricity, Poznań and Katowice. Due to the large additional supply in 2008 in Wrocław, the city became the largest regional office market. A significant increase of office supply in 2008 was also recorded in Łódź. However, taking into consideration the high level of new office space forecast in 2009, Krakow will certainly overtake Wrocław and other cities in terms of supply.

Table 2.

Office market in Krakow and other Polish cities

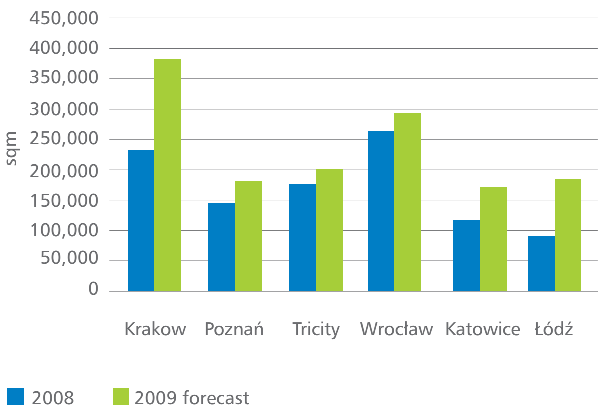
	Office stock	Vacancy rate
Krakow	231,400	1.80%
Poznań	145,500	3.90%
Tricity	175,600	3.40%
Wrocław	263,200	5.70%
Katowice	117,500	3.65%
Łódź	91,000	10.30%

Source: Colliers International

Until recently the regional markets were mainly dominated by local developers, but during the last two years interest from international developers in these markets has also increased with many already building projects or planning to do so.
Year by year the level of demand is increasing in the regional markets and a trend of leasing bigger office space is also noticeable. The highest demand level was recorded in Krakow and Wrocław, with the largest lease agreement in 2008 being signed in Krakow.
The high level of demand and insufficient level of new supply in recent years has caused the vacancy rate to be low in most of the cities, especially in Krakow, with exception of Łódź, where it is around 10%.
In general the rental rates are at a comparable level in the regional cities to non-central locations in Warsaw, that is EUR 14-17 per sqm. Slightly lower rents however can be seen in Łódź and Katowice.

Chart 1.

Office stock in the largest regional markets 2008 & 2009



Source: Colliers International

Krakow office market in comparison with other Central & Eastern Europe (CEE) cities

Although the office market in Poland is based mainly in the capital, the importance of regional markets has been increasing in the last few years. The office space in Polish cities enjoys favour not only among local companies, but also among international firms, who have located regional offices or service centers there. In other countries in the CEE region the office market is still very concentrated in capital cities. An interest in regional cities is growing, e.g. in Slovakia (Kosice, Trnava) and Czech Republic (Brno, Ostrava, Ceskie Budejovice), but the supply there remains at a low level. One of the exceptions is Brno, much smaller than Krakow in terms of population, but comparable in terms of the total office stock. It has 230,000 sqm of office space.
Among the CEE capitals comparable in terms of population size to Krakow is Bratislava, which has over 1.3 mln sqm of office space. This is much more than the stock in Krakow, but as a capital city it concentrates a much higher supply (as Warsaw in Poland).
Among analyzed cities, the highest rent rates have been recorded in Prague and Bucharest. In other cities the rent rates are lower and are comparable with cities like Łódź or Katowice.

Table 3.

Office market in Krakow and other CEE cities

	Total stock	New supply in 2009 (forecast)	Vacancy rate Q4 2008	Rent rates	
				City centre	Suburbs
Krakow	231,400	150,000	1.8%	EUR 15-18	
Budapest	2,108,120	319,000	16.8%	EUR 13-15	EUR 11-13
Bucharest	824,100	507,865	2.8%	EUR 20-26	EUR 13-16
Bratislava	1,386,020	103,300	12%	EUR 14-18	EUR 10-13
Prague	2,400,000	170,000	9%	EUR 21-23	EUR 13-15
Brno	230,000	50,000	20%	EUR 10-12.5	EUR 13-15

Source: Colliers International

III. Krakow Industrial Market

Krakow Industrial Market

Industrial market in Poland

Poland is perceived as a great location for logistic investments due to its central position at the heart of Europe. Although the most desirable locations are the Benelux countries, international rankings have put Poland at an impressive fifth place. However poor road infrastructure has detrimentally affected its appeal, nevertheless along with its development, we can expect an increase of interest from logistic companies, and developers for the best quality warehouse projects.

In Central and Eastern Europe Poland has a leading position in terms of its industrial market, whose growth rate is double the economic growth rate. Therefore Poland has a real chance to become the central warehouse of Europe, or at least of Central and Eastern Europe.

The modern industrial market started to develop in Poland at the end of the 1990's. Brands such as Australian Goodman, Pinnacle, who are already present in the region, and CTP Invest, a leader in the Czech and Slovakian markets, have joined the group of companies interested in the Polish industrial market. Whereas previously logistic investments had been limited to the Warsaw area, for the last few years the proportion of the market located in the regions has significantly increased.

Tendencies and market trends

Despite the uncertain future, 2008 has been yet another fruitful year for the industrial real estate market in Poland. However, 2008 did not achieve the same dynamic growth we had seen in previous years, remaining at the same level of market activity as 2007.

At the beginning of 2008 growing land prices, construction and labour costs were the main source of concern for

Wielicka Street

Płk. Dąbka Street

developers and now the most important factors are perspectives and economic forecasts for the coming year. It is likely therefore that 2009 will probably not bring a significant increase of market activity that has been characteristic of previous years. A slowdown of the market is unavoidable but we do anticipate a continued demand for modern industrial space. Among future tendencies and trends we believe developers will be more interested in built to suit projects, as well as seeing the appearance of a new kind of project, such as flexi spaces. Regional markets will also become increasingly significant, resulting in a decrease of the market share in Warsaw.

Industrial market in Krakow

The stock of modern industrial space in Krakow is only 35,900 sqm, composed of three projects. The most recent one, Panattoni Park Krakow in Skawina, was delivered in the fourth quarter of 2008. Completion of this project, where part of the space is still unleased, increased the vacancy rate up to nearly 30%. Low supply can be a result of problems regarding land ownership where there are small plots of land with complicated ownership structures making it more difficult to create large sites necessary for industrial developments. The strongest competition for Krakow in terms of industrial stock is Silesia and Wrocław. Due to the insufficient levels of supply in the market in Krakow the rental rates reach EUR 3.9-5 per sqm. To combat this problem 215,000 sqm of industrial space is planned to be delivered in Krakow in the coming years. Projects include the second phase of the industrial park in Skawina (23,000 sqm), the Logistic Centre in Niepołomice (22,000 sqm), project by MM Capital Group (32,000 sqm) and almost 140,000 sqm of warehouse complex in Modlniczka planned by Goodman.

In 2008 the Berner Group leased 2,700 sqm in Panattoni Park Krakow. Generally in recent years there were only a small number of industrial lease agreements completed in Krakow because of such a small stock available on the market. FMCG sector dominates the market, although the share of logistic companies in the market is increasing, as in the rest of Poland.

Development perspectives

Although today the Krakow region is the smallest market in modern industrial space in Poland, the planned supply (215,000 sqm) will make it similar in the terms of stock to the industrial market of Gdańsk (Existing stock: 82,000 sqm, planned supply:

Table 1.

Stock of industrial space in Krakow

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

Source: Colliers International

Table 2.

Planned industrial projects in Krakow

Logistic Centre Niepołomice	22,000
Goodman Modlniczka Warehouse	138,500
MM Capital Group	32,000
Panattoni Park Krakow 2	23,000

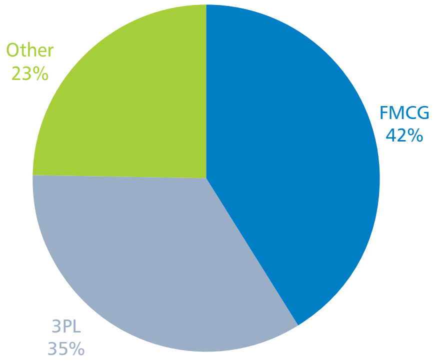
Source: Colliers International

206,000 sqm) or Szczecin (Existing stock: 42,700 sqm, planned supply: 333,000 sqm). Among Krakow's location advantages worth mentioning is its position next to important national and European roads, as well as its Special Economic Zone, which incorporate neighbouring municipalities, such as Niepołomice.

In the last few years Krakow's office market has been developing intensively with an increasing demand for small storage space. Therefore we can expect that in the coming years the sector of small city warehouses or so-called flexi spaces, will start to develop. These are usually buildings amalgamating warehouse and office space, mostly located in cities, where tenants are usually small specialist or maintenance companies. Rental rates are higher than in large warehouses and leased space is around a few hundred metres. Moreover the office space in such buildings is usually of a better quality than in typical warehouses.

Chart 1.

Tenants structure



Source: Colliers International

IV.

Krakow Hotel Market

Monte Cassino Street

Krakow Hotel Market

Hotel Market in Krakow

With the highest number of categorised hotels in Poland, the capital of Małopolska can be regarded as a very hospitable place. Indeed the range of hotels has been recognised by UEFA observers who acknowledged that Krakow has the most varied offer for tourists and football fans coming to Poland for EURO 2012.

The majority of hotels are situated in the very heart of Krakow, within the area of the historical city centre, surrounded by the Planty Garden as well as the popular district of Kazimierz. Many hotels are located in beautiful, historical buildings with a unique atmosphere. Often these are small, intimate venues owned by private investors or small companies. However the largest international hotel groups are also present in Krakow, among them are: Starwood (Sheraton), InterContinental Hotels Group (Holiday Inn, Express by Holiday Inn), Accor (Novotel, Ibis, Etap), Best Western International (Best Western Premier), Louvre Hotels (Campanile), Rezidor Hotel Group (Radisson SAS, Park Inn – the opening of which is planned for 2009), Qubus, Vienna International Hotels (Andel's, Chopin).

In the neighbourhood of high-standard hotels such as Copernicus****, Hotel Grand*****, Amadeus****, Francuski**** and the Stary one can also find tourist-class hotels, hostels and private accommodation.

During the last four years the Krakow hotel market has developed very dynamically. By the end of 2008 there were 120 officially rated hotels of various standards, offering in total 12,750 beds. This figure includes 6 five-star hotels, 13 four-star hotels, 71 three-star hotels, 24 two-star hotels and 6 one-star hotels. Hotels therefore account for 88% of the formally rated facilities. However other officially categorised facilities include 2 holiday houses, 3 camping sites, a motel, 7 guest houses and 3 youth hostels.

Table 1.

Formally rated hotels in Krakow 2008/2009 and the number of beds at the end of 2008

Hotel	Number of hotels	Hotels awaiting confirmation[1]	Number of beds	Number of rooms
Hotel *****	6	0	1,563	878
Hotel ****	13	4	2,219	1,273
Hotel ***	71	0	5,702	3,077
Hotel **	24	1	2,545	1,256
Hotel *	6	1	721	318
Total:	120	6	12,750	6,802

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

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

Table 2.

Hotels in Krakow from a historical perspective

	2003	2004	2005	2006	2007	2008	Hotels awaiting confirmation
Hotel *****	0	3	4	6	6	6	0
Hotel ****	8	8	7	7	11	13	4
Hotel ***	39	44	50	53	64	71	0
Hotel **	13	17	18	20	23	24	1
Hotel *	7	6	6	6	7	6	1

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

Table 3.

Average prices depending on the season and hotel category (based on a double room with breakfast on a week day)

	*****	****	***	**
High season summer 2008 EUR/PLN 3.346	Sheraton	Copernicus	Wentzl	Florian
	EUR 224 (PLN 751)	EUR 269 (PLN 900)	EUR 201 (PLN 671)	EUR 83 (PLN 279)
	Sympozjum	Ostoya Palace	Polonia	Panorama
	EUR 129 (PLN 431)	EUR 191 (PLN 640)	EUR 102 (PLN 341)	EUR 72 (PLN 240)
Low season beginning of 2009 EUR/PLN 4.391	Sheraton	Copernicus	Wentzl	Florian
	EUR 174 (PLN 765)	EUR 148 (PLN 650)	EUR 179 (PLN 793)	EUR 50 (PLN 220)
	Sympozjum	Ostoya Palace	Polonia	Panorama
	EUR 88 (PLN 386)	EUR 81 (PLN 355)	EUR 46 (PLN 203)	EUR 46 (PLN 200)

Source: Colliers International on the basis of information provided on hotel websites

From the analysis of the Krakow hotel market it appears that between 2003 and 2008 the city saw the biggest growth in the sector of three-star hotels. Currently they constitute almost 60% of all the categorised facilities and have the largest share in the number of beds; 71 hotels offering in total over 5,700 beds. However it is worth mentioning that three-star hotels in general vary significantly in terms of the standard of services they provide.

Dynamic growth can also be seen at the higher end with five and four-star hotels, whose offer is addressed in particular to business and conference travellers, and prosperous tourists. Since 2003 6 hotels have earned five-star status. These are chain hotels such as the Sheraton, Radisson SAS, Holiday Inn, and hotels with a unique formula – the Grand, Sympozjum and Crown Piast.
Equally high growth can be observed in the sector of four-star hotels with the 7 existing in 2006 growing to 13 by 2008, with four more hotels awaiting confirmation. Similarly, there are hotels with international brands such as the Best Western Premier which opened in 2008, Andel's Hotel, Qubus Hotel or Novotel hotels. However among four-star hotels one can also find boutique hotels with luxurious interiors that are targeted at individual travellers. Such hotels include the Amadeus, 2 hotels – Hotel Pod Różą and Copernicus owned by brothers Likus and Gródek of the Donimirski family.

Together four- and five-star hotels form 15% of all rated facilities and offer almost 3,800 beds.
According to the data from the Central Statistical Office, in May 2008 the highest occupancy rate was in five-star hotels and it stood at 77.8%, but the occupancy rate for four-star hotels was only slightly less at 76.4%, which are popular especially among foreign travellers.
Together there are 30 one- and two-star hotels, which offer over 3,260 beds. They have strong competitors in hostels of which there are over 70 in Krakow. This situation is reflected by occupancy levels in one- and two-star hotels, which is lower than in other hotels. In May 2008 it was 72.3% in one-star hotels, whereas for two-star hotels it reached the lowest level of 71.7%.
Moreover growth at the lower end of the hotel market is slow. Nevertheless, in 2008 Etap – an economy class hotel was opened, while a further 2 have been promised to the market.

The price of a hotel room in Krakow of course depends on the hotel's location, its category and the standard of services provided, as well as the time of year of booking. The most expensive hotels are located in the very centre of Krakow. Hotels of a lower star category but located in the neighbourhood of the Main Square are often more expensive than hotels of a higher star category located on the city's outskirts. The season is also of great importance. High season in Krakow starts in April and finishes at the end of October, and this is when the prices are at there highest and hotels have the largest occupancy.

Tourism

Every year many visitors come to sightsee and relax in Krakow. In the last few years the number of visitors has grown steadily, but according to the data for 2008 concerning tourist flow in the Małopolskie Viovodship, conducted by the Insitute of Tourism, the number of visitors in Krakow fell by ca. 10% compared with last year.

The decrease in the number of tourists in 2008 was certainly due partly to the strong Polish currency that resulted in higher prices of fuel and tourist services. Poland therefore stopped being considered a cheap destination. However in 2008 Krakow was the most popular among British tourists (25%), then the Germans (18%) and the Italians (9%).

Despite the significant fall in the overall number of tourists from 2007-8, four- and five-star chain hotels noted an increase in the average occupancy in 2008. This we argue is the result of the strengthening business sector in the city, which is the main source of clients for the upper-end hotels. However the effects of lower tourist numbers can be seen by the lower occupancy levels of hotels and lower RevPar (Revenue per available room). This is substantiated by the figures where it is estimated that across all hotel categories, an average occupancy rate of 73% was achieved, and an ADR (Average daily rate) of EUR 82, compared specifically to the five-star segment which produced higher figures of ca. 75% and EUR 107 respectively.

Despite 2008 not being the best year for tourism, it seems that the Krakow hotel market will continue to grow dynamically. In 2008 17 building permits for hotels were issued and 24 decisions regarding land development conditions were made. With four- and five-star hotels the most popular among foreign visitors it is clear why further growth of this sector is planned. This is in line with the city's new strategy; Krakow wants to promote itself as a centre of new technologies, high culture and important conferences, with a view to attracting seasoned and business travellers. That is why the city aims to organise important cultural and sporting events and intends to develop Krakow as a congressional centre.

For more demanding clients seeking true relaxation new hotels and projects under construction are including spas and wellness centres in their designs. Conference space is also being included to attract business travellers. At the moment, the largest conference centre in Krakow has room for a maximum of 700 people, and in Wieliczka for 800, but this is insufficient capacity for large congresses or an important trade fair. We hope therefore that the necessary congressional and fair infrastructure will soon be constructed to broaden Krakow's appeal beyond that of purely tourist visitors.

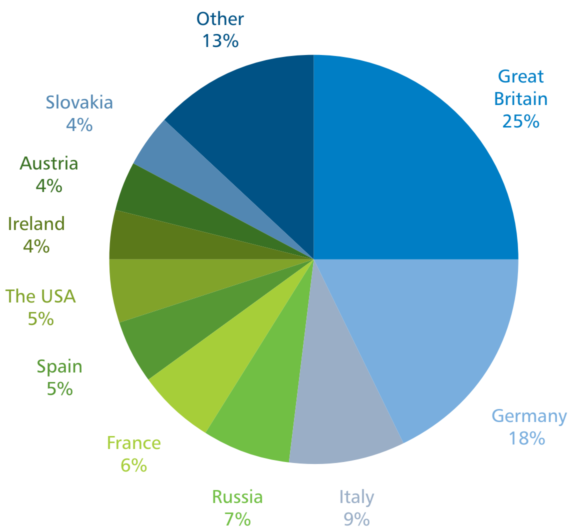
Hotel projects in Krakow – planned and under construction

Hotel Kossak at 1 Kossaka Square – awaiting four-star status – is the next project of the Ostachowski family who already own the three-star boutique hotel Senacki. The opening is planned for April 2009 and the hotel will have 60 rooms and 1,200 sqm of conference space. The hotel will be able to host 120 people at a time, organise family celebrations, business and diplomatic banquets for 110 guests in the Percheron restaurant and 80 people in the winter garden, as well as prepare a conference for 160 participants.

Hotel Park Inn of a three and a half star standard, belonging to the Rezidor Group, is being constructed at the corner of Monte Cassino and Jana Bulhaka streets, in the direct neighbourhood of a planned Congress Centre at the Grunwaldzkie roundabout. The six-storey hotel is due to open in 2009. In the hotel there will be 152 rooms, including 4 superb suites and 12 junior suites, a restaurant for 120 guests, a bar, fitness and a spa, a conference centre totalling 1,000 sqm, consisitng of 5 conference rooms, a ball room and a business centre. The estimated cost of the investment is EUR 26 mln.

Chart 1.

Country of origin of tourists



Source: Institute of Tourism

Pantheon at 69 Nowohucka Street is a project of the Krakow based investor Pantheon International Sp. z o.o. It will be a four--star hotel, which will have 79 double rooms, 3 apartments including a160 sqm presidential suite, a 200 sqm conference centre, a buisness centre, a restaurant for 80 people, a cafe for over 20 guests, lobby bar, jazz club, fitness and spa with saunas, a swimming pool and jacuzzi. Hotel guests will be able to choose between a modern and traditional design of rooms. The scheme will also house boutiques and an art gallery with works of contemporary local artists. The opening of the hotel is scheduled for the second half of 2009.

Art Hotel Niebieski at 3 Flisacka Street is undergoing an extension. The end of works is planned for autumn 2009, when the hotel will offer 50 rooms, of which 38 will be double rooms, 10 single rooms and two luxury suites, a conference room for 80 people, a restaurant for 150 people, a spa and an underground car park.

Two Accor Group hotels are planned on Pawia Street. These are a one star Etap and a two-star Ibis. The opening is planned for 2010 and Krakow already has hotels of these brands, in the Bronowice district and on Syrokomli Street.

The Gromada hotel with a conference centre is being constructed in Borek Fałęcki on Orzechowa Street. It will be a three-star hotel offering between 250 and 300 rooms, and a conference centre totalling 5,000 sqm.

Table 4.

Hotels in Krakow opened in 2008

Hotel	Category	Number of rooms
Best Western Premier	4*	174
Kościuszko	awaiting 4*	24
B.A.S.	3*	12
Benefis	3*	20
Columbus	3*	24
Fero Express	3*	95
Old Time	3*	23
Grand Felix	2*	51
Lorenzo	2*	18
Etap	1*	120

Source: Marshal's Office of the Malopolskie Voivodship

Zakrzówek at Konopnickiej street is to be finished by 2010. According to the plans, it will be a three-star hotel with a petrol station, offering 152 rooms, a conference centre for 300 people. Currently, the investor is searching for a hotel operator.

The **Hilton** brand is also going to be developed in Krakow. It is hard to predict when the first Hilton hotel will be opened since no construction works have as yet started.

For 2011 the opening of a four-star hotel on Pokoju Avenue is also scheduled. The hotel will be located in the neighbourhood of the Plaza Krakow shopping gallery. It would be a hotel belonging to an international hotel group, offering its guests conference space and a spa.

Krakow hotel market compared with selected regional cities

The following analysis focuses on regional cities only. Warsaw has the most developed hotel market offering the highest number of bed-places in Poland. This is as a natural consequence of Warsaw's status as a capital city and the centre of business. Krakow however can boast the highest number of categorised hotels in Poland – 120, with Poznań in second place among regional markets with 45. Krakow has the most hotels of any category apart from two-star hotels, which are primarily located in Poznań, with 15 in total.

It is worth noticing that in comparison to other regional cities Krakow has an exceptionally well developed pool of middle and upper scale hotels. There are 6 five-star hotels, whereas the majority of cities analysed have far fewer, Poznań only 1 and Łódź none. Moreover, Krakow has 24 four-star hotels compared to the nearest competitor Wrocław that has only 7, and Łódź none at all. With regards to three-star facilities, Krakow has over three times as many as Poznań, which has only 22, whereas Katowice has only 3, the weakest city in this category.

Furthermore Krakow can offer twice as many hotel beds as Poznań or Wrocław, and over five times more than Gdańsk or Łódź and even six times more than Katowice.

Krakow hotel market compared with other Central & Eastern Europe cities

In comparing the Krakow hotel market with hotel markets of capitals from the CEE region one can notice a typical disproportion between capital and regional cities. Bucharest, Budapest and Prague have significantly higher populations than Krakow, and are important business and cultural centres not only on a national scale but on an international level. Thus it is not surprising that those cities have a broader hotel offer. Still the number of hotel rooms in Prague, which is over 25,000 – over three and a half times more than in Krakow, is impressive. At the same time Bratislava, although the capital city, has a hotel offer much smaller than Krakow. At the end of 2007, it offered only over 3,560 beds. It can be explained by the fact that Bratislava has a smaller population than Krakow and is less popular among tourists.

Table 5.

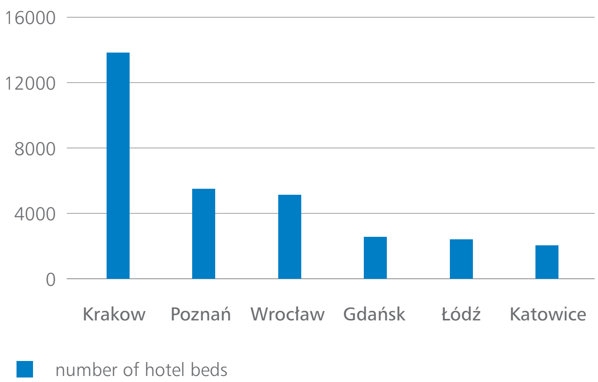
Hotels in regional cities

Formally rated hotels	Krakow	Poznań	Wrocław	Gdańsk	Łódź	Katowice
Hotel *****	6	1	2	2	0	2
Hotel ****	24	5	7	4	0	1
Hotel ***	71	22	20	10	8	3
Hotel **	13	15	7	5	8	4
Hotel *	6	2	4	1	2	4
Total:	**120**	**45**	**40**	**22**	**18**	**14**

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

Chart 2.

Number of beds



Source: Central Statistical Office of Poland, as of 31.07.2007

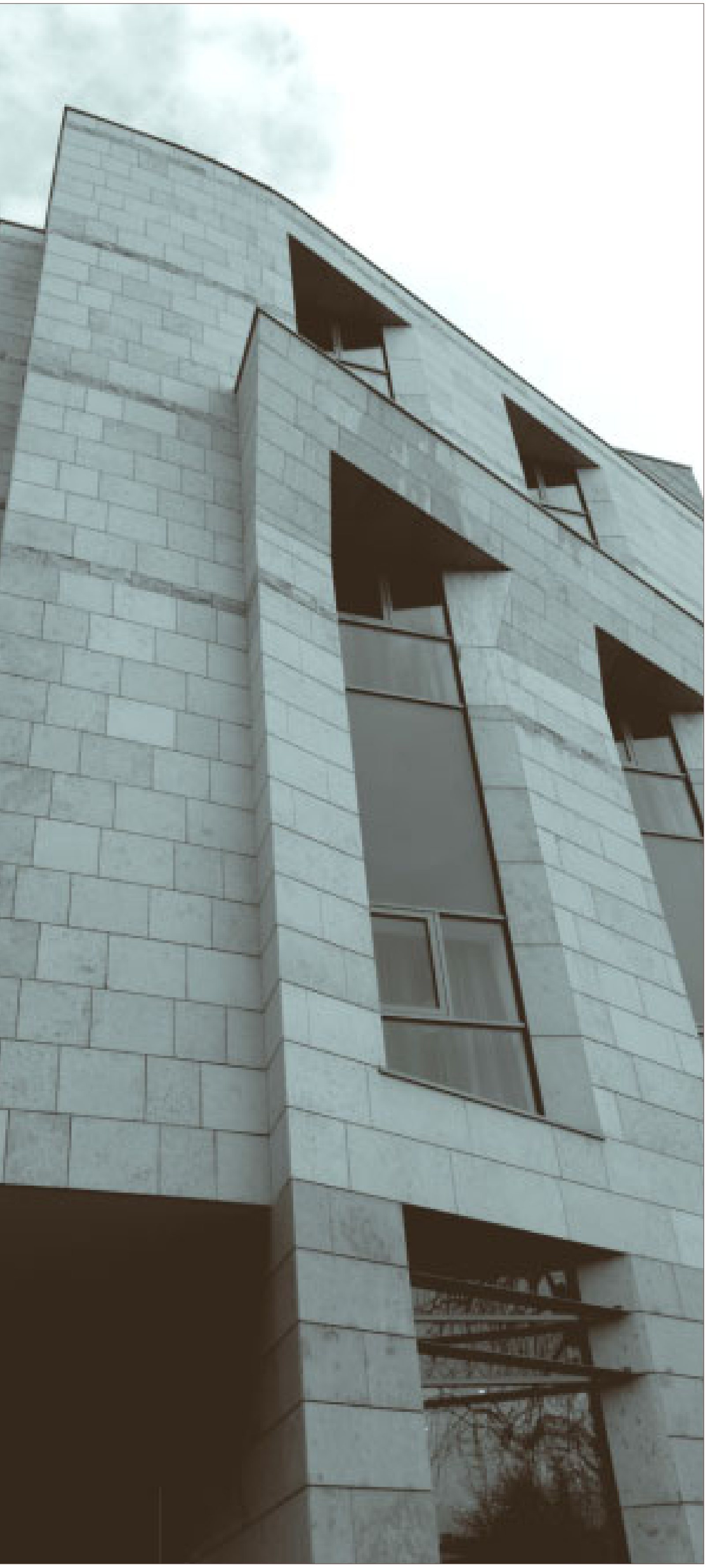


Table 6.

Hotels in the selected CEE cities

City	Number of hotels	Number of rooms	
Krakow	120	6,802	as of end 2008
Bratislava	53	n/a	as of end 2007
Bucharest	122	10,106	as of end 2008
Budapest	183	17,862	as of end 2008; 1 and 2-star hotels not included
Prague	328	25,100	as of H1 2008

Source: Colliers International on the basis of statistical data

Summary:

- The highest number of formally rated hotels in Poland and a wide range of hotels
- The highest number of lodging places among regional cities
- High occupancy in upper-scale hotels indicates that hotels of higher standard are still demanded in Krakow
- Strengthening demand for chain hotels as result of business development in Krakow
- Further growth of hotel market, especially in the segment of high-category chain hotels

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CRACOVIA KRAKÓW

TABLE ADMINISTRATIVE BOROUGHS

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

map of the Krakow districts

Krakow Boroughs

From 1991, Krakow has been divided into 18 administrative boroughs. Their distribution in relation to the former four primary boroughs is presented in the table and a map below.

Concept

Co-operation

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