KRAKOW REAL ESTATE MARKET 2014 P.II

KRAKOW 2015

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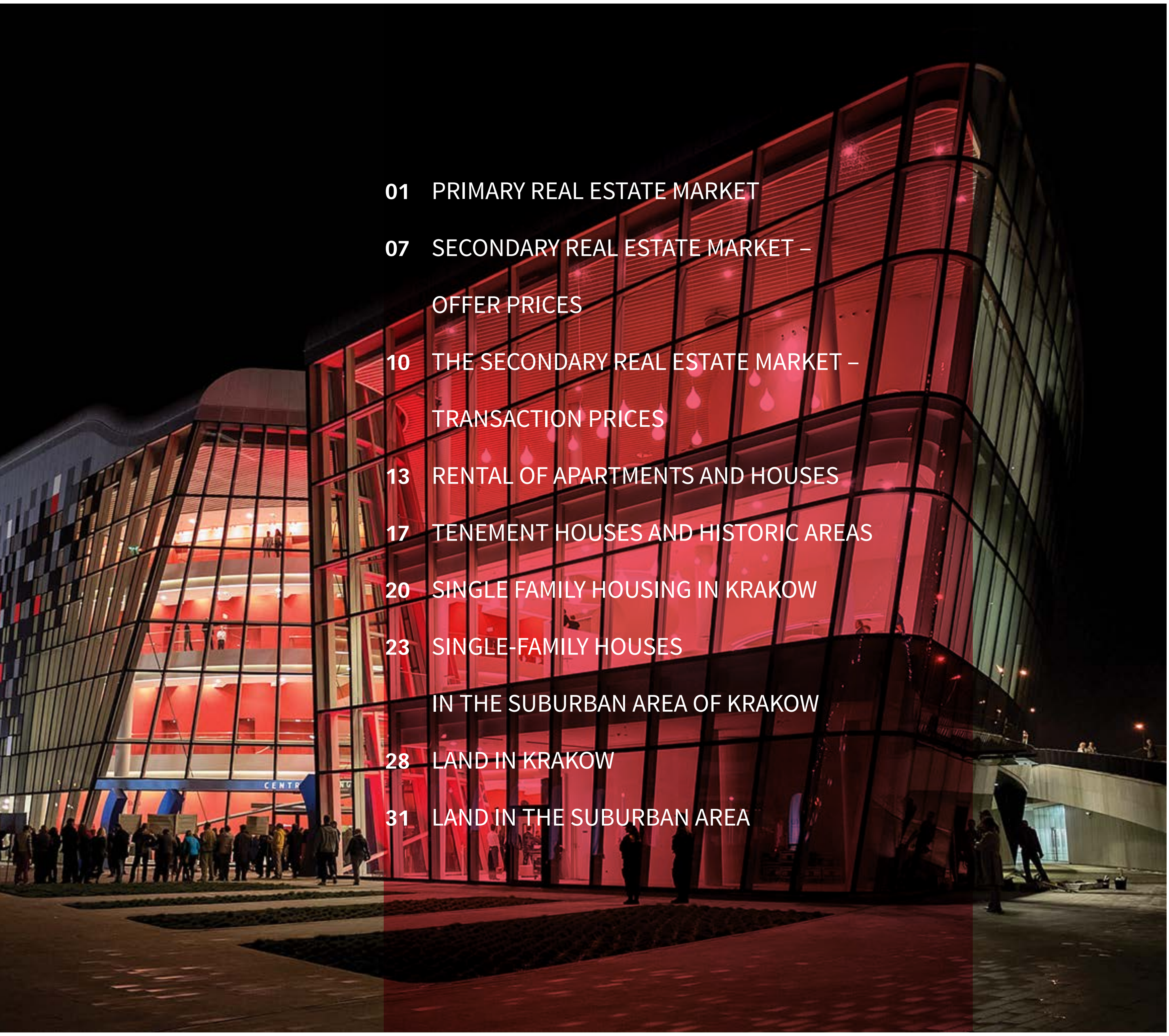
Measures used in Poland

1 ar =100 m^2 = 0.01 hectare (ha)
1 hectare = 10,000 m^2 = 100 ars (ar)



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PRIMARY
REAL ESTATE
MARKET

Results of housing construction
According to preliminary data of the Statistical Office in Krakow, from January to December 2014 in the capital of Małopolska, 7,361 apartments were completed, i.e. 4.5% more than in the previous year and over 7.8% more than two years ago. Starting from 2010, the number of completed apartments has been steadily growing. In total, in the last five years in Krakow, more than 30,800 apartments were completed, and in the last ten years, a total of more than 63,850 apartments. Therefore, the result for 2014 is higher than the average for the past ten years by almost 1,000 apartments. (Chart 1)

Since 2010, the index informing about the number of apartments under construction has been on a high level. In 2014 investors started the construction of 9,266 apartments, i.e. 7% more than the year before. In the last five years, the construction of more than 45,500 apartments began.

However, since 2010, the number of apartments for which construction permits were issued, has decreased. In 2014, building permits were issued for 5,591 apartments, i.e. over 25% less than in the previous year.

In 2014, in Krakow, only two types of investors put apartments to use. Apartments for sale and rent dominated (implemented by developers), which accounted for 85% of the total pool of completed apartments. 15% of apartments were completed by individual investors, and no apartments were completed within other forms of housing construction (cooperatives, company, municipal, social rental).

Distribution of investments

According to the portal Dominium.pl, at the end of December 2014, most – 41% of all Krakow investments, were offered in Podgórze. A similar number of investments was recorded in the city centre (Śródmieście) (22%) and Krowodrza (24%). As in previous years, the smallest number of investments were offered in Nowa Huta, approx. 13%. In comparison to the previous year the percentage of investments implemented in Krowodrza decreased, whereas the share of investments in the city centre and Nowa Huta slightly increased. (Chart 2)

Distribution of apartments

At the end of the fourth quarter of 2014, the Dominium.pl database included 7,480 apartments offered by Krakow developers. Assuming that the rest of the market offer included approx. 15% more apartments, the general pool of offered apartments may be estimated at approx. 8,600.

According to Dominium.pl most apartments (in total almost 40% of the entire offer) were offered in three districts: Podgórze (XIII), Prądnik Biały (IV) and Grzegórzki (II). Many apartments were also on sale in Dębniki (VIII), Czyżyny (XIV), Prądnik Czerwony (III), Bieżanów-Prokocim (XII), Podgórze Duchackie (XI) and the Old Town (I). In total, these nine districts offered 83% of all the apartments, whereas the remaining districts offered only 17%. The smallest offer of apartments was recorded in three districts of Nowa Huta: Bieńczyce (XVI), Wzgórza Krzesławickie (XVII), Nowa Huta (XVIII) – a total of less than 1.5% of the offers. (Table 1)

Chart 1.

The number of completed apartments (put to use), apartments for which building permits have been issued and apartments, whose construction started in Krakow in 2009-2014

Source: Based on data of the Statistical Office in Krakow

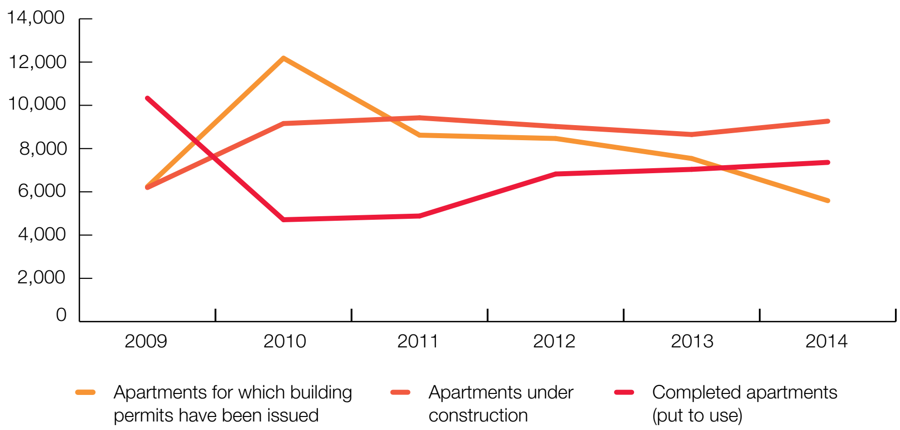


Chart 2.

Distribution of offered housing investments in Krakow (December 2014)

Source: Dominium.pl

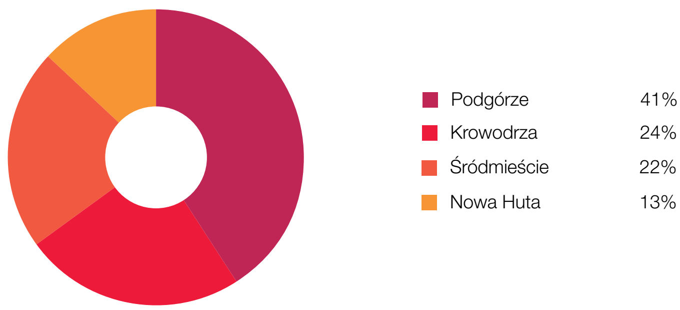
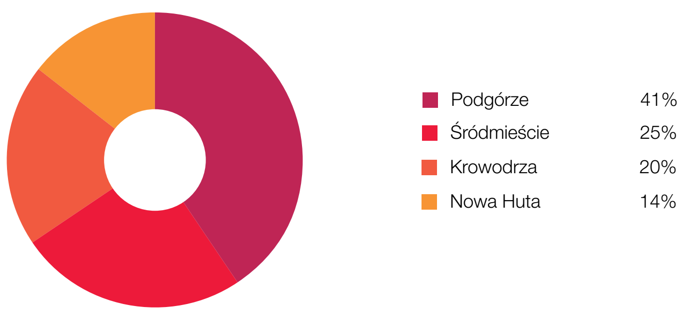


Chart 3.

Distribution of the offered apartments in Krakow (December 2014)

Source: Dominium.pl



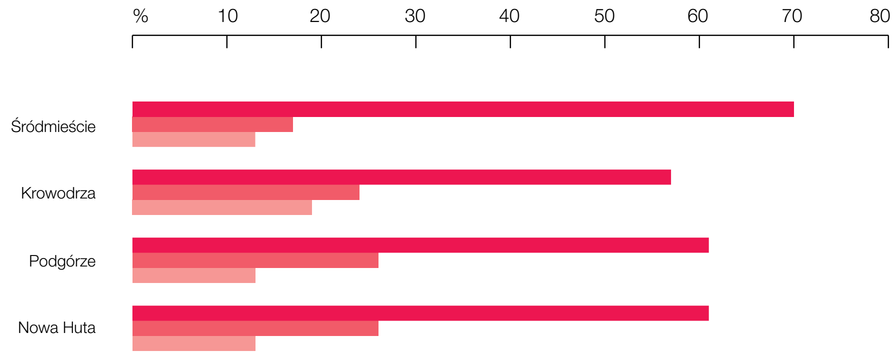


Chart 4.

Distribution of investments in the area of Krakow according to completion dates (December 2014)

Source: Dominium.pl

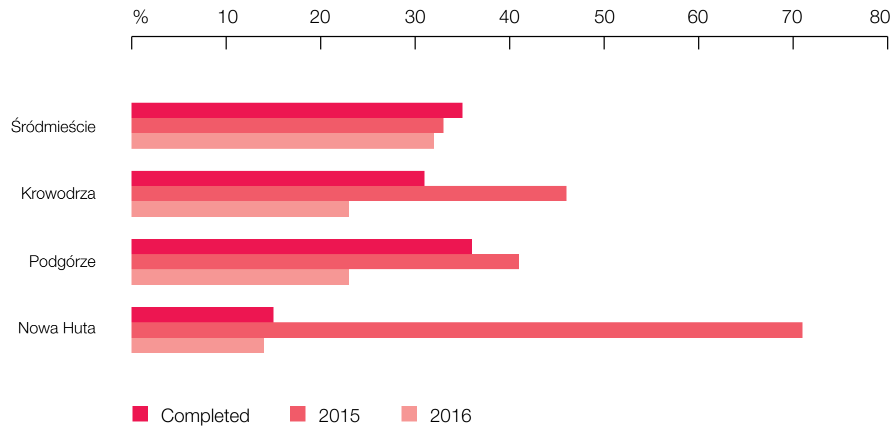


Chart 5.

Distribution of apartments in the area of Krakow according to completion dates (December 2014)

Source: Dominium.pl

In Krakow, the district of Podgórze was dominant with more than 40% of all offered apartments. The smallest number of apartments were sold in Nowa Huta (just over 14%). The city centre and Krowodrza were in the middle of the ranking, with nearly 25% and 20%, respectively. In comparison to the previous year, the shares of Podgórze decreased, whereas the shares of all the other areas increased. (Chart 3)

Investment completion dates

At the end of December 2014, the housing investment offer was dominated by apartments with the status of "completed" or the date of completion estimated at end of the year – such investments accounted to approx. 62%. In 2015, nearly 25% of investments are to be completed, and in the next year – 14%. Most of the completed investments were located in the city centre, and the least in Krowodrza. In the previous year, completed investments in the entire city accounted for than 70% of investments. (Chart 7)

Apartment completion dates

In comparison to the situation in the previous year, at the end of December 2014, the share of completed apartments in the offer of developers decreased. There were 32% of such apartments, whereas in December 2013 – 45%. The offer was dominated by apartments with completion dates in 2015 (44%). 24% of apartments are to be completed in the following year. (Chart 8)

The highest percentage of completed apartments (approx. 35%) was located in the city centre and Podgórze, and the least (less than 15%) – in Nowa Huta, where the percentage of apartments to be completed in 2015 was the highest (71%). The city centre was the area in which the pool of apartments already completed and those to be completed in 2015 and 2016 was at a similar level. Compared to 2013, the share of completed apartments decreased mostly in Krowodrza. In December 2014 there were over 30% of such apartments, while in the previous year almost 57%. (Chart 5)

Price structure

In December 2014, the Krakow real estate offer was dominated by apartments in the 5-7 thousand PLN/m^2 price range. Such apartments constituted 63%. The second price range: 7-9 thousand PLN/m^2 represented approx. 25% of the Krakow offer, and approx. 8% – the cheapest apartments, were the price did not exceed 5 thousand PLN/m^2. Proportionally, the smallest percentage (4%) were apartments for which buyers had to pay more than 9 thousand PLN/m^2. As the asking price is usually not provided in the case of more expensive locations, it may be assumed that the share of the most expensive apartments is actually slightly larger. (Chart 9)

The price level in particular districts

In December 2014, the highest average prices were recorded in the Old Town district (I). Average housing prices in that district reached almost 11 thousand PLN/m², and in some luxury projects – up to 15 thousand PLN/m². The second most expensive Krakow district was Zwierzyniec (VII), where the average price per m² of an apartment was approx. 1 thousand PLN less than in the Old Town. In Bronowice (VI), Grzegórzki (II) and Krowodrza (V) districts the average prices ranged from 7-8 thousand PLN/m². At the other extreme were two Nowa Huta districts: Nowa Huta (XVIII) and Wzgórza Krzesławickie (XVII), and Swoszowice (X). The average prices in these locations did not exceed 5 thousand PLN/m². In four other Nowa Huta and Podgórze districts: Mistrzejowice (XV), Bieżanów-Prokocim (XII), Bieńczyce (XVI), Podgórze Duchackie (XI), the average prices were in the range of 5-6 thousand PLN/m².

Average prices in the range of 6-6.8 thousand PLN/m² were recorded in the following areas: Łagiewniki-Borek Fałęcki (IX), Czyżyny (XIV), Prądnik Czerwony (III), Prądnik Biały (IV), Dębniki (VIII) and Podgórze (XIII).

The average price of 1 m² of a new apartment, defined as the average price in the districts, amounted to, in December 2014, 6,574 PLN and was 1.1% lower than in the previous year. Although the prices in particular districts changed over the period of 12 months in different directions, as a result of a large influx of new projects and the sale of old offers, it may be concluded that the average price in the city remained stable.

Distribution of apartments according to the number of rooms

The offer of apartments in December 2014 was dominated by 2- and 3-room apartments, which in total accounted for almost 80% of the offer. The structure of apartments was complemented by studio flats which accounted for over 13%, and 4-room apartments (6%). Less than 1% of the offered units were apartments with more than 4 rooms.

Distribution of apartments according to floor area

The chart showing the distribution of offered apartments according to floor area clearly indicates that the offer of the Krakow market is dominated by apartments in 410-50 m² and 51-60 m² range. (Chart 11) In total, apartments with such a floor area constitute half of the total offer. Smaller apartments (31-40 m²) and larger dwellings (61-70 m²) have a similar share, and constitute approx. 15% of the offer. The share of other floor area ranges is less important and does not exceed a few percent of the offer.

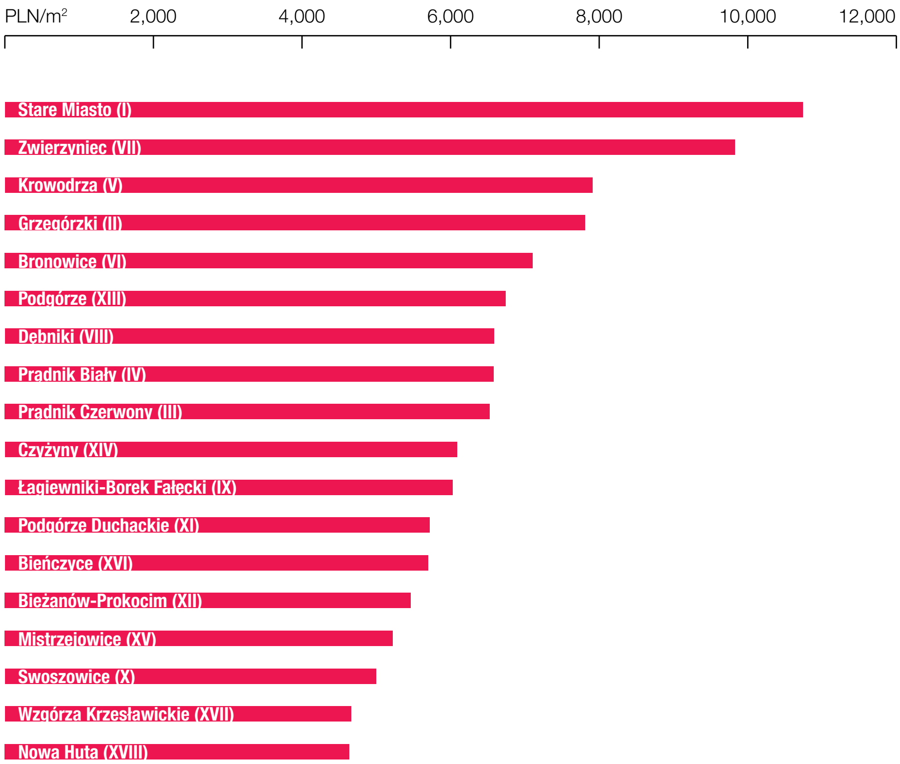
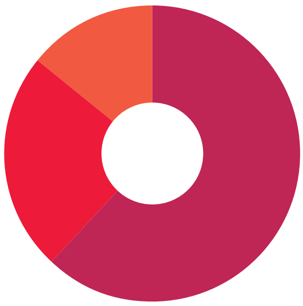


Chart 6.

The average offer price of new apartments in the districts of Krakow (December 2014)

Source: Dominium.pl



Completed	62%
2015	24%
2016	14%

Chart 7.

Investment completion dates in Krakow (December 2014)

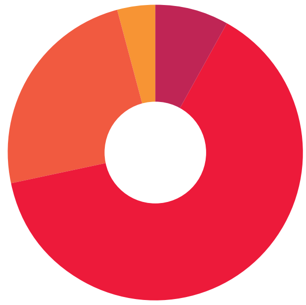
Source: Dominium.pl

Completed	32%
2015	44%
2016	24%

Chart 8.

Apartment completion dates in Krakow (December 2014)

Source: Dominium.pl



Up to 5 thousand PLN/m^2	8%
Up to 5-7 thousand PLN/m^2	63%
Up to 7-9 thousand PLN/m^2	25%
Over 9 thousand PLN/m^2	4%

Chart 9.

The offer price structure of apartments in Krakow (December 2014)

Source: Dominium.pl

District	Share (%)
Stare Miasto (I)	5.7
Grzegórzki (II)	11.8
Prądnik Czerwony (III)	7.5
Prądnik Biały (IV)	12.3
Krowodrza (V)	3.8
Bronowice (VI)	2.8
Zwierzyniec (VII)	1.0
Dębniki (VIII)	9.2
Łagiewniki-Borek Fałęcki (IX)	2.0
Swoszowice (X)	1.9
Podgórze Duchackie (XI)	6.1
Bieżanów-Prokocim (XII)	6.8
Podgórze (XIII)	14.9
Czyżyny (XIV)	8.7
Mistrzejowice (XV)	4.1
Bieńczyce (XVI)	1.0
Wzgórza Krzesławickie (XVII)	0.1
Nowa Huta (XVIII)	0.3

Table 1.

Distribution of the offered apartments in the administrative districts of Krakow (December 2014)

Source: Dominium.pl

Summary

The year 2014 was characterized by a large influx of new housing offers and at the same time a high level of sales. By balancing supply and demand, there were no significant changes in prices, and the average price per square meter of an apartment, based on the average prices in particular districts, changed only slightly. However, at the end of 2014, there were more apartments left in the developers' offer than in the previous year, which – depending on the supply in the first months of 2015 – may affect the price movements in the coming quarters.

The good economic performance was shaped by stable prices, low interest rates, and partially supported by subsidies under the programme "Mieszkanie dla młodych" (Apartment for the Young). During the year, the investors' offer included more and more locations and offers that met the criteria of the above government programme.

In 2014, Krakow recorded the highest number of apartments put into uses since the beginning of the current decade. It is worth noting that only developers and individual investors completed their apartments in that year. The number of apartments whose construction has begun was also high. However, there was a significant drop in the number of building permits issued, which may result in a reduction of supply in the following quarters and years.

As in previous years, most investments and apartments were offered in the area of Podgórze, and the least in Nowa Huta. There is a significant concentration of housing offers in several districts. Over 80% of all offers are located in nine districts of Krakow.

In 2014, the percentage of completed apartments and investments dropped. Percentage like, the smallest number of completed apartments were in Nowa Huta, and the biggest in Podgórze and Krowodrza.

Approximately 80% of the offered apartments had two or three rooms and half of the units were in the 40 to 60 m² range.

At the end of December 2014, most of the Krakow apartments were in the price range of 5-7 thousand PLN/m², and almost 90% of all units cost between 5 and 9 thousand PLN/m². The most expensive districts in the city are the Old Town (I) and Zwierzyniec (VII), and at the other extreme, there is Nowa Huta (XVIII) and Wzgórza Krzesławickie (XVII).

Chart 10.

Distribution of apartments according to the number of rooms (December 2014)

Source: Dominium.pl

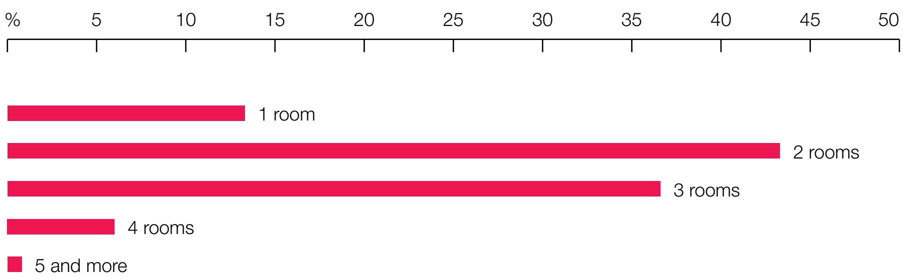
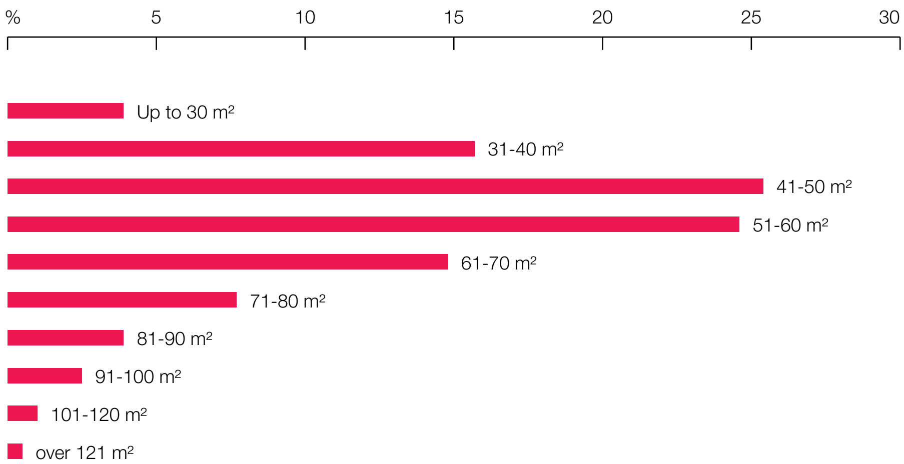


Chart 11.

Distribution of apartments according to floor area (December 2014)

Source: Dominium.pl



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SECONDARY REAL ESTATE MARKET – OFFER PRICES

The year 2014 in Krakow was a stable period on the secondary real estate market in Krakow – taking into account the average offer prices, with a slight upward trend, which slowed down towards the end of the year. Thus, the disparity between the average asking price from the first and the last quarter of the period amounted to only 177 PLN. In the first quarter of 2014, in order to buy an apartment on the secondary market one had to pay an average of 6,787 PLN/m^2, whereas in the fourth quarter it was 6,964 PLN/m^2. This slight upward trend was a reflection of the general situation on the real estate market in Krakow, and at the same time indicates a change as compared to previous years which recorded a slight decline of the housing prices on the secondary market. (Chart 1) As a reminder, in 2013, the asking price of apartments on the secondary market fell by less than 3%, in 2012 it was 4%, in 2011 it dropped by 2.6%.

This situation was influenced by several factors. Undoubtedly, one of the most important was the improvement of the economic situation on the local real estate market. This is evidenced by the record sale of residential units in the capital of Małopolska in 2014.

An additional stimulus that encouraged those who were planning to buy an apartment to decide on taking a credit and making the purchase, was probably the fact that from 1st January 2014, the own contribution required from all borrowers amounted to 5%. It is not surprising, therefore, that people who do not have adequate savings, accelerated their purchasing decisions in order to complete the transaction before the beginning of 2015 (from this point, the required contribution is 10%). This situation particularly concerned people planning to buy an apartment on the secondary market. A direct impact was the fact that this particular group of buyers could not count on covering their own contribution required by the amendment to Recommendation S under the programme "Mieszkanie dla młodych". It is worth recalling that the government programme, in contrast to its predecessor, "Rodzina na swoim", does not include apartments from the secondary market. In 2014, persons planning to buy an apartment on the secondary market may have felt additional pressure.

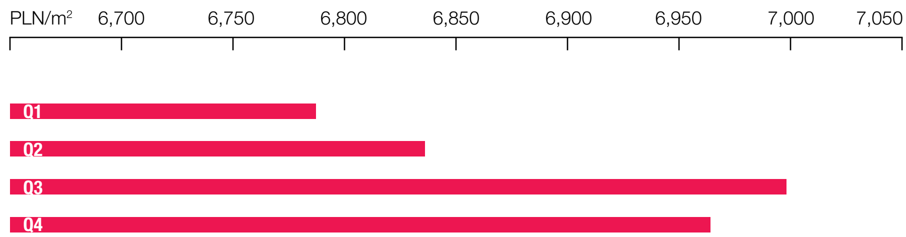
As regards the "Mieszkanie dla młodych" programme, it should be noted that the Act on state aid in the purchase of a first apartment by young people makes the secondary real estate market beyond the interests of people who have subordinated their search for a dream apartment in order to find a dwelling qualifying for to the government funding. Therefore, in the case of this group of customers (we should also remember that buyers up to the age of 35 are the most numerous group of buyers of apartments), the secondary market does not present an attractive option.

The year 2014 did not bring any surprises in relation to the development of average asking prices in particular districts of the city. Invariably, the most expensive area was the Old Town district, in which the average price of apartments on offer was 9,167 PLN/m². However, it is worth remembering that this particular area of Krakow is governed by different rules than other areas of the city. A significant part of the local offer on the secondary market are apartments located in the city centre (within the area of Planty) or in the immediate vicinity. Hence, prices in this area, due to the unusual nature of the investments themselves, as well as the prestige of the place, differ significantly from the average prices in the city. Apart from the Old Town, the most expensive districts of Krakow are Zwierzyniec and Krowodrza. The average asking prices on the secondary market in 2014 were, respectively, 8,608 and 7,749 PLN/m². Prices remained high in the districts which are most popular among purchasers of apartments, namely Bronowice (7,613 PLN/m²), Grzegórzki (7,567 PLN/m²) and Dębniki (6,732 PLN/m²). Podgórze is also worth attention – as it is an area of Krakow which in recent years has experienced rapid development. Completed investments, not just housing investments run by developers, but also infrastructure and investments in commercial and service buildings, have made this part of the city more and more attractive for people looking for housing. Therefore, it is not surprising that as Podgórze is becoming more and more attractive, the average prices of apartments located within its boundaries are growing. In 2014, the average asking price of apartments on the secondary market was 6,724 PLN/m². For comparison, in the previous year it was 6,310 PLN/m², which is about 414 PLN/m² less. Districts in which the average asking price remained above 6,000 PLN/m² also included Prądnik Biały and Prądnik Czerwony. The cost of 1 m² on the secondary market in those parts of the city was, respectively, 6,646 and 6,531 PLN/m². Invariably, the cheapest areas were districts located in the eastern part of Krakow: Wzgórza Krzesławickie (5,300 PLN/m²), Prokocim-Bieżanów (5,557 PLN/m²), Bieńczyce (5,567 PLN/m²) and Mistrzejowice (5,721 PLN/m²). (Chart 2)

Chart 1.

The average asking price of apartments on the secondary market in each quarter of 2014

Source: Data from KRN.pl



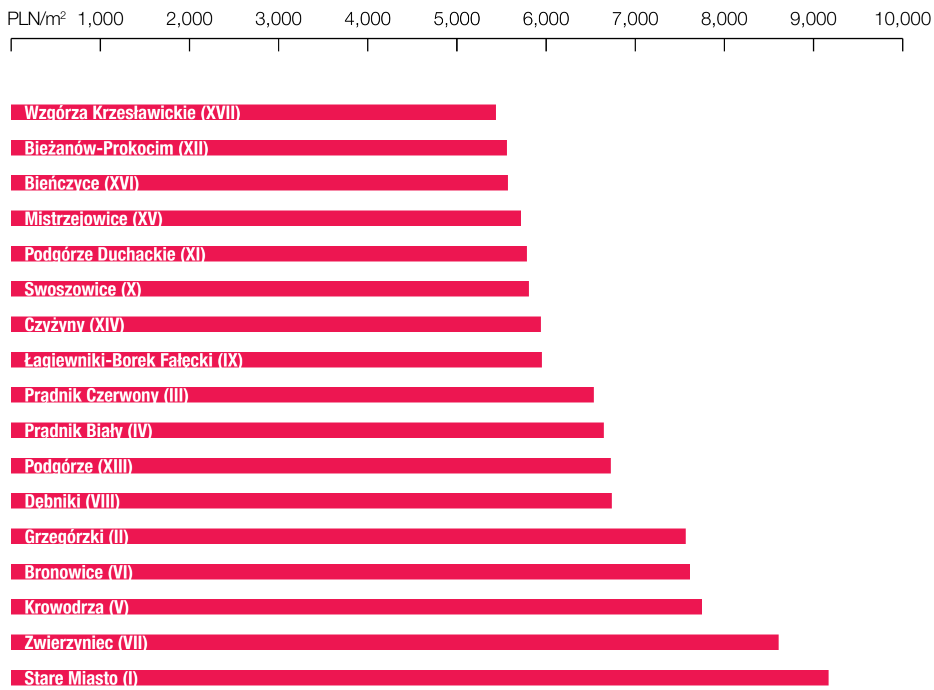


Chart 2.

The average asking price of apartments on the secondary market in the districts of Krakow.

Source: Data from KRN.pl

Chart 3.

The average asking price of apartments on the secondary market taking into account the year of construction

Source: Data from KRN.pl

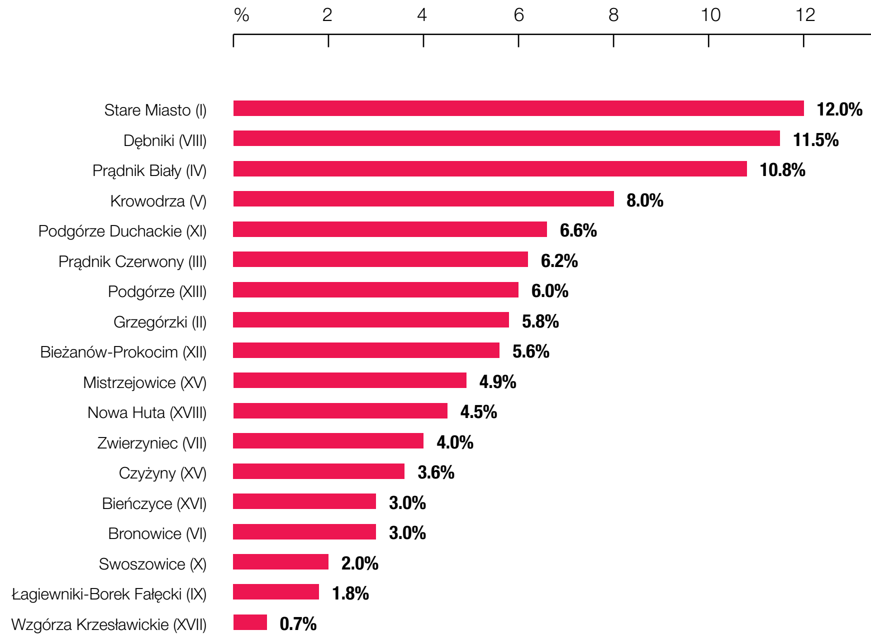


Chart 4.

The supply of apartments on the secondary market in particular districts of Krakow (%)

Source: Data from KRN.pl

Housing prices on the secondary market in Krakow largely depended on the year of construction of the facility. In 2014, buildings built before 1960 were the most expensive. This is mainly due to the fact that these are largely historic buildings located in the city centre. Last year the average price of units in this segment was 6,935 PLN/m². It should be noted, however, that the analysis does not include the most expensive apartments, whose prices exceeded the amount of 10,000 PLN/m². Taking into account the year of construction, the most affordable housing in 2014, were apartments in buildings constructed in the years 1961-1989. This results from the fact that these are largely units located in buildings constructed according to the large panel technology, which is not very popular among buyers. Moreover, often these are units located in large blocks of flats, outside of the centre of Krakow. The average price of apartments in this segment in 2014 amounted to 6,145 PLN/m². (Chart 3)

Supply of apartments

In 2014, the largest number of apartments for sale on the secondary market was recorded in the following districts: Old Town (12%), Dębniki (11.5%) and Prądnik Biały (10.8%). These are areas in which the supply of housing on the secondary market has been the largest for several years. These areas of the city were also leaders in terms of supply in both 2013 and 2012.

At the other extreme were: Wzgórza Krzesławickie (0.7%), Łagiewniki-Borek Fałęcki (1.8%) and Swoszowice (2%). The low supply of apartments on the secondary market in those parts of Krakow results from the fact that the said areas are characterized by a low level of multifamily housing – they are largely dominated by single-family housing. (Chart 4)

By far the largest part of the offer on the secondary market in the capital of Małopolska are 2-room apartments. In 2014, apartments offered in this group accounted for 39% of the total offer. Second were 3-room apartments (32%). The smallest choice was offered to persons planning to buy a studio flat or a 4-room apartment or bigger. In 2014, such apartments accounted for, respectively, 13.5 and 15.5% of the total offer on the secondary market in Krakow. (Chart 5)

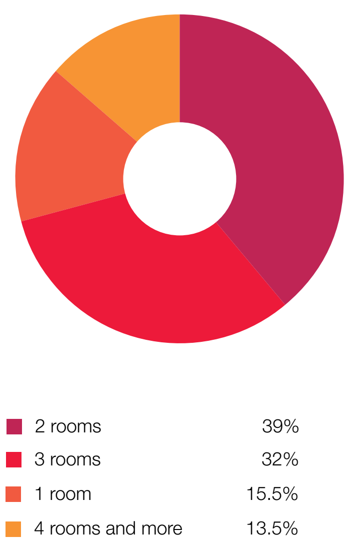


Chart 5.

The supply of apartments in Krakow according to the number of rooms

Source: Data from KRN.pl

THE SECONDARY REAL ESTATE MARKET – TRANSACTION PRICES

Most apartments in the Krakow secondary market are sold in the largest cadastral unit – Podgórze. For many years, nearly half of all the apartments completed by developers have been built in this old district, which in time supply the offer of the secondary market, increasing the volume of transactions in this market segment. The smallest number of apartments is sold in the following areas: the city centre – because of the high prices – and Nowa Huta, with the lowest number of constructed apartments. The bad reputation of Nowa Huta still discourages potential buyers from buying an apartment in this part of the city, despite a significant number of housing built in the 1950s and 60s. (Chart 1)

After a very good 2013, when almost as many apartments were sold as during the exceptionally good performance in the years 2010-2011, in 2014 the number of apartments sold in the secondary real estate market declined significantly: by 8% as compared to the previous year. This is a result of competition from the primary market, which last year supplied the housing market with a significant number of new investments and became highly competitive for the secondary market in terms of prices. The difference between the average selling price of a new and second-hand apartment was an average of 500 PLN/m^2, which meant that by adding approx. 8% of the purchase price, as compared to apartments on the secondary market, buyers could afford a new apartment with similar surface area and location.

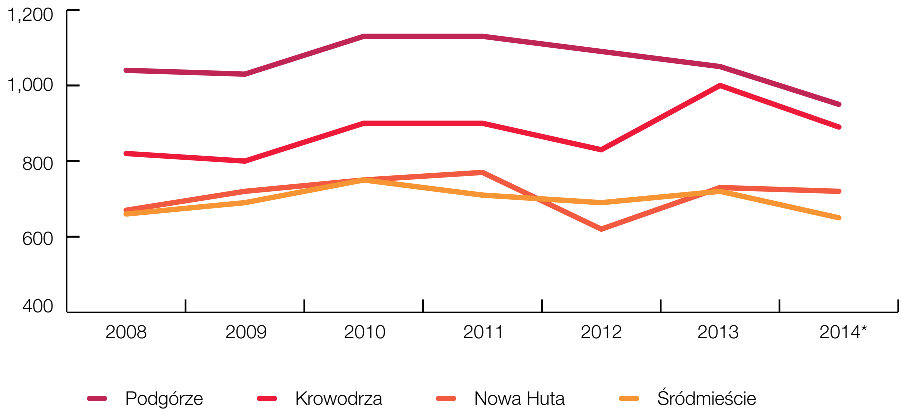


Chart 1.

The volume of transactions on the secondary market

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

* numbers estimated on the basis of incomplete data

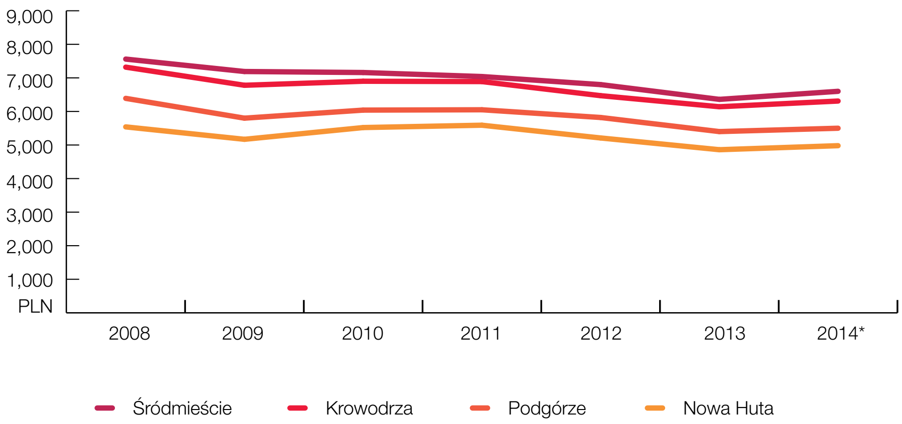


Chart 2.

The average price per 1 m² of an apartment on the secondary market

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

* numbers estimated on the basis of incomplete data

The decline in the number of apartments sold on the secondary market was also the result of the state policy of subsidizing the young members of the society with the purchase of new apartments – under the government programme “Mieszkanie dla młodych” (MdM) – at least 10% of the price in the case of cheap construction, which covered the difference in value between new and old apartments, favouring the former.

The assessment of the attractiveness of particular areas of Krakow is reflected in the average prices obtained for residential units in the former four districts. The greatest interest, and consequently – the highest prices, are recorded in the city centre and Krowodrza. Lower prices are achieved in Podgórze, and, traditionally, the cheapest is Nowa Huta. (Chart 2)

In 2014 there was a rebound of transaction prices. Prices in all the districts increased as compared to 2013. However, the scale of increase was small, barely noticeable.

The year 2014 was the third, in recent years, when the average price of the purchased units, despite the growth, remained below the limit of 300 thousand PLN for the average unit.

The average unit price per 1 m² of the total number of sold apartments in the secondary market, in 2014, increased by approx. 2% as compared to the previous year, but still below 6 thousand PLN/m². A slight growth was recorded in all areas of the city, but in a different dimensions. Prices in downtown areas and Krowodrza increased, while in Podgórze and Nowa Huta the increase in average prices was barely noticeable.

In total, with respect to the entire city, the average size of apartments purchased on the secondary market, in 2014, was as in the previous year: 49 m². This reflects the high purchasing power of buyers, while maintaining low prices.

As in previous years, mostly small apartments were traded on the secondary market. Larger units are rarely traded on the market. In 2014, transactions of apartments with a floor area of 65 m² accounted for 14% of all transactions and the sale of apartments of over 100 m² was slightly more than 2% of the total market.

This situation has lasted for a long time and will be difficult to change, as, currently, mainly small apartments are being built, which in time will enter the secondary market, causing the continuation of current trends. (Chart 3)

The decline in the number of transactions on the secondary market in 2014 resulted in smaller turnover, which fell to its lowest level in 8 years. The beneficiary of the increased demand for housing in Krakow was the primary market, which in 2014 sold more than two times more apartments than the secondary market. Never before in the history of the real estate market in Krakow, this relationship was so unfavourable for the secondary market. (Chart 4)

Summary

The highest ever domestic demand for housing was recorded, however, in Krakow it focused on the primary market. The secondary market recorded the lowest turnover in 8 years.

All the districts sold mainly small apartments, wealthier customers preferred the primary market.

The government programme "Mieszkanie dla młodych" with subsidies for new housing and increased competition on the development market resulted in poor sales in the secondary market. These factors will continue to drive the market in 2015. Despite the poor sales, as compared to 2013, there was a slight increase in the prices of second-hand apartments: more visible in more expensive neighbourhoods and barely noticeable in the cheaper parts of the city.

In 2015, the secondary real estate market in Krakow should be stable as regards prices. Barriers to the growth of prices are too strong to result in a visible appreciation of the current price levels.

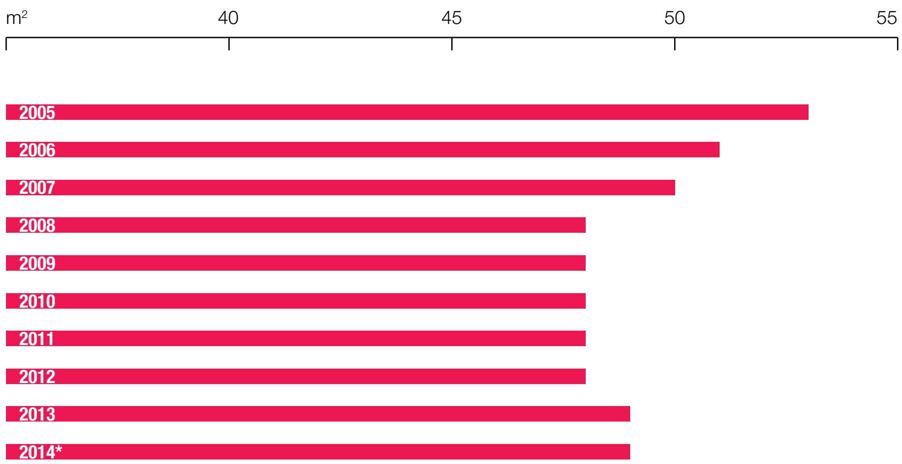


Chart 3.

The average floor area of an apartment on the secondary market in Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

* numbers estimated on the basis of incomplete data

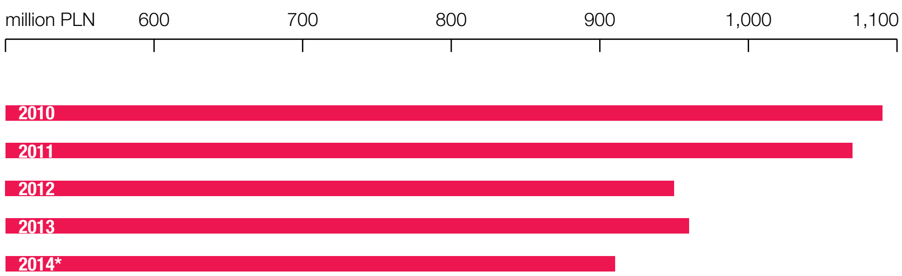


Chart 4.

Trading on the secondary real estate market

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

* numbers estimated on the basis of incomplete data

RENTAL OF APARTMENTS AND HOUSES

For years the housing rental market in Krakow has been characterized by stable prices. Slight fluctuations occur during the holiday season, when demand from potential tenants (in Krakow this group is mainly composed of students) is limited. After excluding seasonal factors, it turns out that the rates for renting an apartment in Krakow in 2014 – as in previous years – remained stable. This confirms the fact that the lease in the capital of Małopolska is stable and remains less susceptible to changes in the market. Significantly, in 2014, there have been no major differences as compared to previous years. The cost of renting the most popular 2-room apartment was an average of 1,420 PLN. For comparison, in 2013 it was 1,466 PLN. The tenants of studio flats in 2014 had to take into account a cost of 1,069 PLN. For obvious reasons, the most expensive apartments were 3- and 4-room apartments. These are units with a larger floor area, and in the case of the latter group – often of a higher standard, located in the central parts of the city, which are considered the most attractive. The cost of renting such an apartment in 2014 in Krakow, was, respectively, 1,678 and 2,201 PLN. (Chart 1)

The stability of rental prices of apartments in Krakow is confirmed by the analysis of the average rates in each quarter of 2014, taking into account the number of rooms. A noticeable decrease in prices was recorded only in the third quarter of the year, as regards all apartments included in the analysis. This results from the fact that the third quarter of the year is the holiday season, a time when the largest group of tenants, namely students, is out of town. During this period, landlords are willing to lower rental rates, to find tenants for that period. The prospect of reduced revenues from the lease is in fact more favourable to them than the option that for three months the apartment is non-rented. The tendency to reduce prices also results from the fact that in addition to losses caused by the fact that tenants do not pay the so-called cancellation fee, the owners are aware of the fixed costs for the said period, which include, among other things, administrative fees. After a period of lower demand for apartments for rent in the summer season, in the fourth quarter of 2014, the situation on the rental market returned to normal, and prices reached the pre-holiday period. (Chart 2)

An important criterion determining the level of average prices for renting apartments in Krakow is location. As it turns out, the average rental rates in different administrative areas of Krakow differ by as much as a few hundred PLN. The most expensive apartments are located in the central parts of the city. These include: the Old Town, Zwierzyniec and Grzegórzki. In the former, the average price for the rental of an apartment in the reported period amounted to PLN 1,721, which means that it was about 54 PLN higher than in the previous year. In Zwierzyniec, a district that came second in the ranking, tenants paid an average of 1,645 PLN. In Grzegórzki the price amounted to PLN 1,587.

The most expensive districts, taking into account the average rental price, include Bronowice (1,505 PLN), Krowodrza (1,502 PLN) and Dębniki (1,425 PLN). It is worth noting that relatively high rates for rental are in areas popular among students. This group includes Dębniki, where a large number of faculties of the Jagiellonian University are located or Bronowice. (Chart 3)

The analysis of the supply of apartments for rent indicates that in 2014 the largest number of units appeared in the district of Prądnik Biały. Apartments for lease located in this district accounted for over 13% of the total offer in 2014. In second place, in terms of supply, was Krowodrza (12%), and the third – Dębniki (11.8%). A good result was also recorded in such administrative parts of the city as Prądnik Czerwony (9%) and the Old Town (8.8%).

At the opposite extreme, with the lowest number of units for rent in 2014, were areas farthest from the centre of the city – Wzgórza Krzesławickie, Swoszowice and Łagiewniki-Borek Fałęcki. It is worth noting that these are areas with a small number of multi-family housing – they are dominated by single-family houses. (Chart 4)

Chart 1.

The average rental prices in 2014

Source: Data from KRN.pl

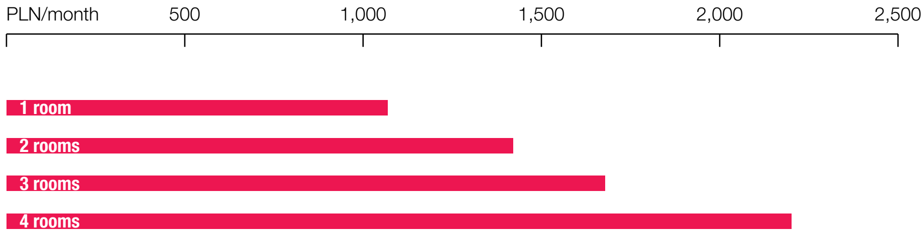
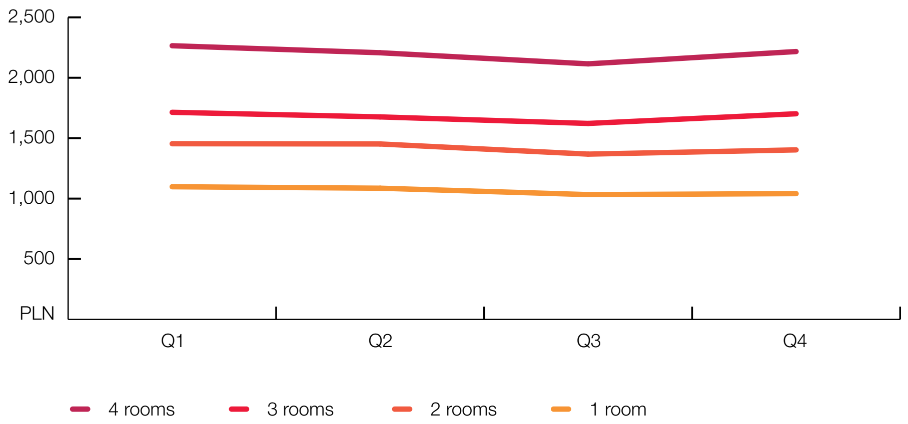


Chart 2.

Changes in average rental prices, taking into account the number of rooms in each quarter of 2014

Source: Data from KRN.pl



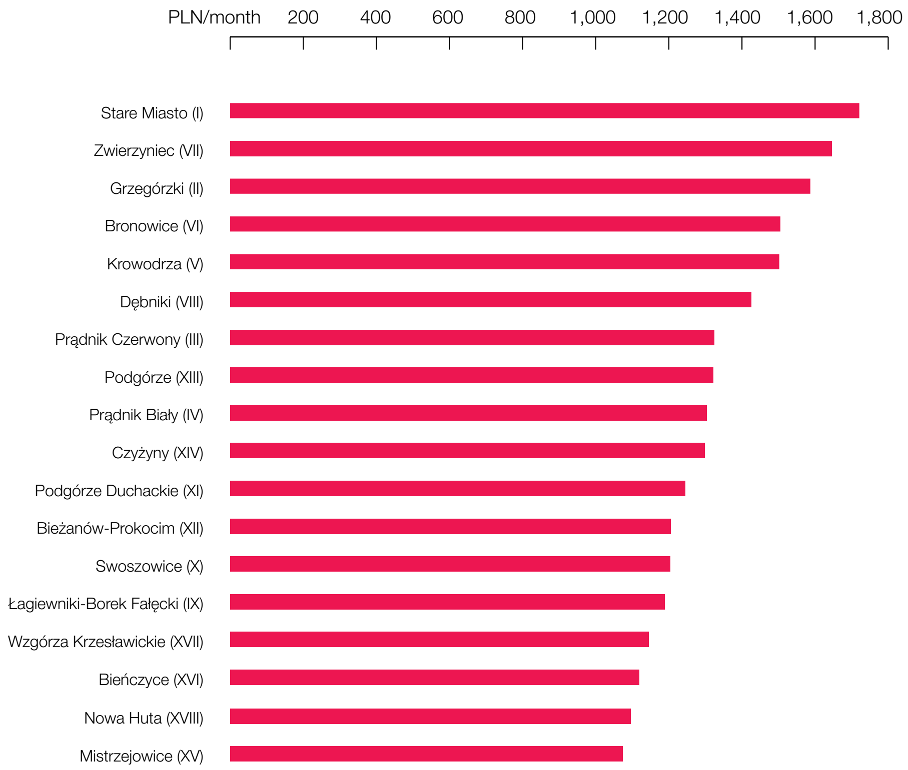


Chart 3.

The average rental prices for apartments divided into districts

Source: Data from KRN.pl

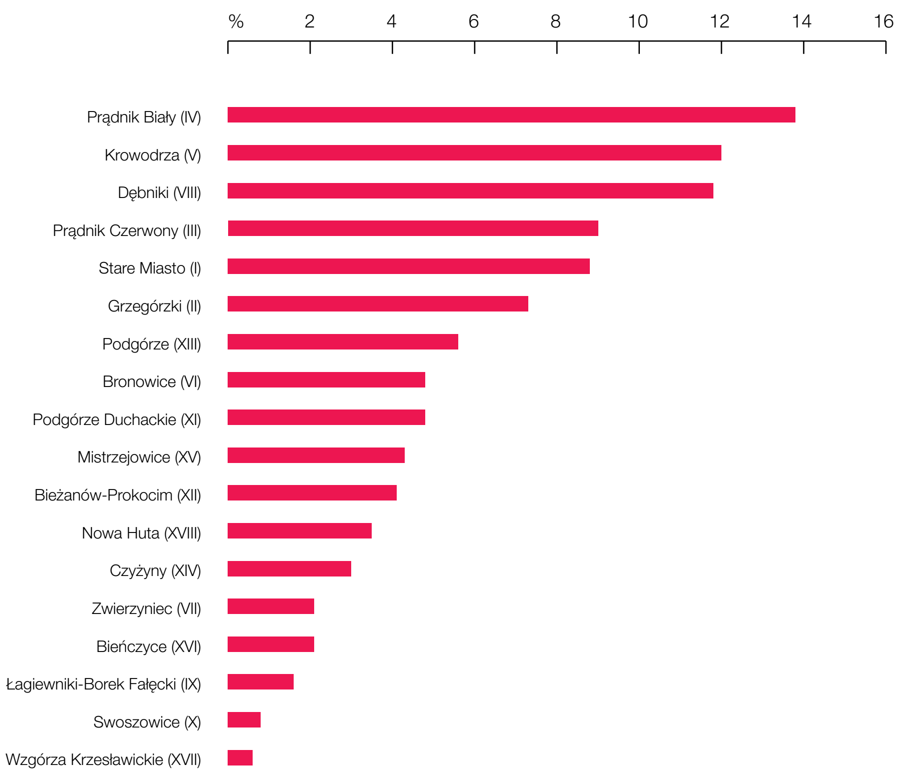


Chart 4.

The supply of apartments for rent in particular districts in 2014

Source: Data from KRN.pl

As in previous years, the largest group of apartments offered for rent in Krakow were 2-room apartments. The analysis of the structure of supply indicates that in 2014 such units constituted almost half of the offer – 48%. In second place, but with a significantly poorer result (26%), were studio flats. There were also fewer 3-room apartments (23%) in the Krakow offer. Persons who wanted to rent a 4-room apartment had the greatest difficulties. Apartments in this segment accounted for only 2% of all apartments offered for rent in 2014. Apartments with more than 4 rooms were not included in the analysis of the structure of supply, as their share in the total number of ads was only 1%. (Chart 5)

The year 2014 was also a stable period for those renting homes in Krakow, as well as in the county of Krakow and Wieliczka. After the cuts of rental rates of this type of property reported in previous years, in 2014, we witnessed a stabilization of prices, and in some cases – their slight increase. The average price for renting a house in Krakow in the said period was approx. 3,564 PLN, i.e. only 40 PLN more than in 2013. Small changes in the average rental rates (year on year) were also reported in the case of houses located outside of Krakow – in the county of Wieliczka and Krakow. In the first case, the average rent was 2,420 PLN, i.e. 3.5% more than in the previous year. Whereas tenants renting houses in the county of Krakow, in 2014, had to take into the account a cost of approx. 2,398 PLN. This is an increase as compared to 2013, in which this amount was 2,349 PLN. (Chart 6)

Chart 5.

The supply of apartments for rent, taking into account the number of rooms in 2014

Source: Data from KRN.pl

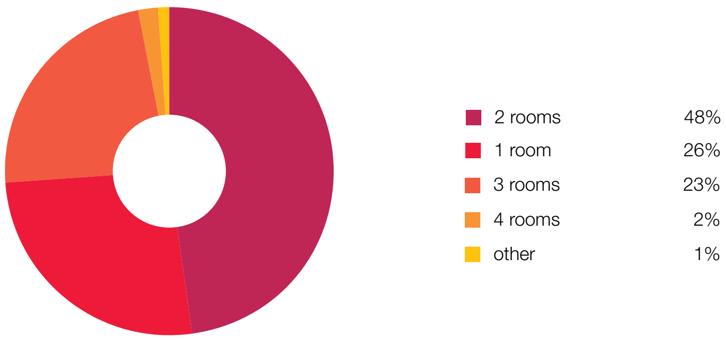
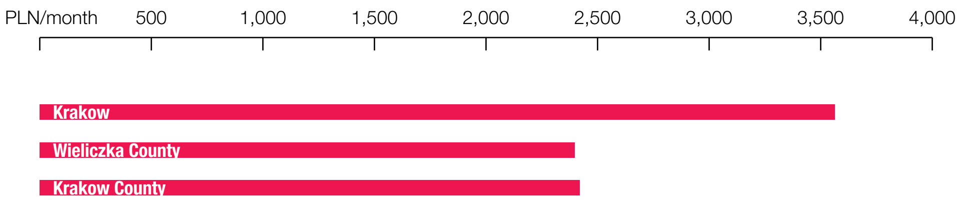


Chart 6.

The rates for renting a house in the county of Krakow and Wieliczka in 2014

Source: Data from KRN.pl



TENEMENT HOUSES AND HISTORIC AREAS

The pre-war and historic centre of Krakow is built up with tenement houses – multi-storey residential buildings which dominated the cities of the Middle Ages to the mid-twentieth century.

Urban complexes of tenement houses include the oldest part of the city centre, Krowodrza and Podgórze. These are considered the best locations in Krakow, generating the highest revenues from rents and services (trade, tourism and catering), and their unique form is a source of prestige for the owners of such buildings. Therefore, tenement houses have always been a separate segment of the investment property market, with its own dynamics, supply and demand. The market of tenement houses is strongly correlated with the housing market (especially apartments), as well as the commercial space market and the hotel and tourism market, which most often operate in these buildings.

Turnover

Every year, transactions concerning tenement houses in all three pre-war Krakow districts: the city centre, Krowodrza and Podgórze are recorded.

In 2014, there were 33 sale transactions of entire tenement houses and 128 transactions of shares. After a period of decline in the number of transactions taking place since the peak in 2006-2009, the number of purchase-sale contracts grew rapidly in the period 2010-2013. In the previous year, the volume of transactions of whole tenement houses rose again, reflecting the continuing very good economic performance of the market. (Chart 1)

The year 2013 was a record year in terms of turnover – such results were have not been recorded on the market since 2009, and 2014 was very similar. Investors spent up to 200 million PLN on purchases, including the purchase of whole buildings – over 130 million PLN.

The year 2014 was a continuation of the growing interest in investing in historic Krakow real estate, sustained by the good economic performance in the apartments market. The specific feature of this type of market segment is flexible, variable demand adapted to the economic situation, as compared to the relatively rigid supply of sale offers of historic buildings.

Similarly to the residential, commercial and hotel market, also the market of tenement houses has displayed investor optimism since mid-2013, as reflected by public auctions of municipal tenements in which up to 20 bidders have participated since the holiday season of 2013.

Prices

The years 2003-2007 witnessed a rapid increase in the prices of tenement houses due to the boom in the real estate market at that time. In 2008, the adjustment began and prices started to fall until 2012. The last two years have been a period of stability, comparable to the level from 2010 and 2011 (6,800-7,100 PLN/m^2 of usable floor area of a tenement house in the city centre). Taking into account the simultaneous increase in the number of transactions, it may mean that the market has already reached its lowest price level in 2012, and since then the downward trend has been replaced by an upward trend. Current prices of tenement houses are still lower by 30% (nominal prices), and after taking into account the inflation, by almost 40% (real prices), from record prices in 2007.

The highest price paid so far, in 2014, for a tenement house was 15.5 million PLN, with an average market price of such properties of approx. 4.4 million PLN. For comparison, in 2013 the most expensive house reached a price of 25.3 million PLN, and the average market price of the property amounted to PLN 5.3 million.

An inherent feature of the market is a considerable variation of unit prices of tenement houses (2.3 thousand – 12 thousand PLN/m^2 of usable floor area) resulting from significant disparities in the attractiveness of the location (Węgierska Street in Podgórze – Main Market Square), in their technical condition (from luxury townhouses – to vacant buildings requiring an overhaul) and the size of the income from the lease (from retail space rented for 300-400 PLN/m^2 – to apartments with tenants paying adjustable rent 10-14 PLN/m^2). For most investors, the expected rate of return is the basis for calculating the cost-effective price of purchasing the building.

Chart 1.

Number of transactions on the market of tenement houses

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* estimated on the basis of incomplete data

Number of transactions of whole tenement houses

Number of transactions of interests in tenement houses

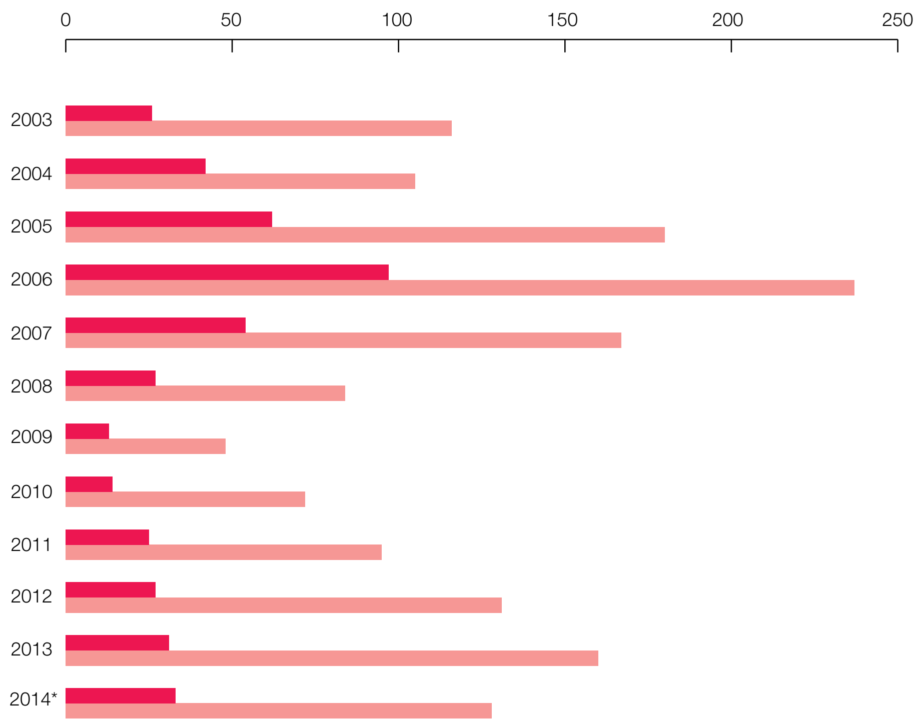


Chart 2.

The average price of 1 m^2 of usable floor area in the city centre

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* estimated on the basis of incomplete data

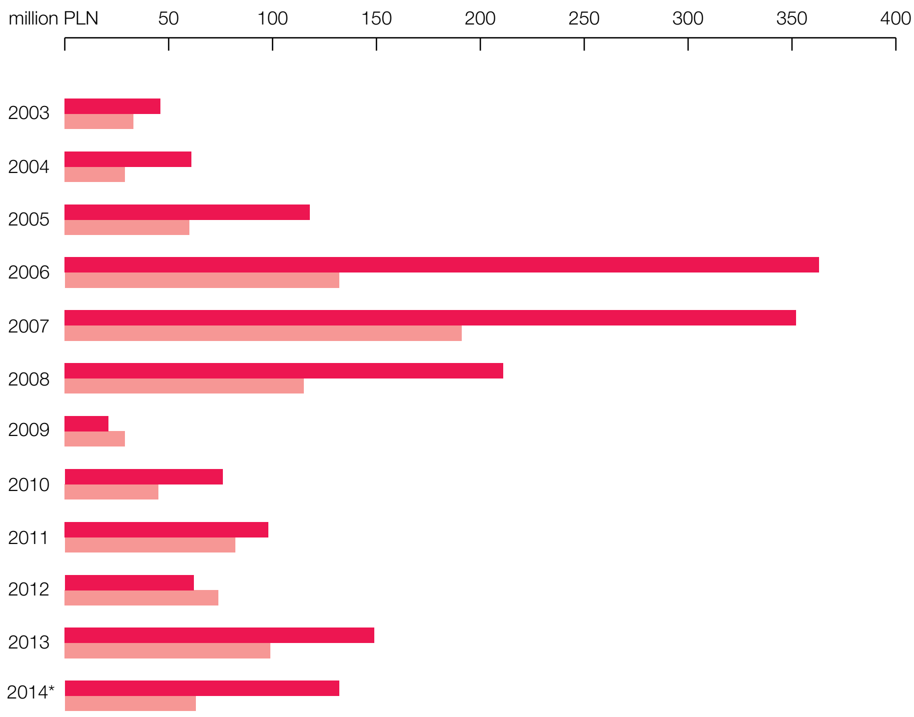


Chart 3.
Market turnover in tenements and interests in tenements

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* estimated on the basis of incomplete data

Market turnover of whole tenement houses (million PLN)

Market turnover of interests in tenement houses (million PLN)

Demand

Foreign demand increased during the bull market up to 2007. For example, in Kazimierz, the share of foreign investors (mainly from the EU and Israel) in the market turnover increased from 13% in 2003 to 75% in 2008. Since 2009, their interest in tenement houses started to decline. Currently, the share of foreign capital does not exceed 40%.

The structure of demand in 2014 still indicates a majority of investors in the housing and apartment sector, and a limited, but steady, demand from the hotel and tourism market (purchases for hotels, hostels, guest houses, catering facilities). The demand pressure has also been growing in the case of investors looking for townhouses for distinctive offices and corporate headquarters. The investment attractiveness of townhouses is also reflected in new investments in the city centre – the so-called infills (supplement buildings between existing houses).

Prognosis

Since mid-2013, investors encouraged by low prices and cheaper loans are slowly returning to the market. In addition, from the beginning of 2014, the market of tenement houses has been affected by an upturn in the market of luxury apartments. Therefore, market forecasts for tenement houses in Krakow in the short and medium term are optimistic. In the near future, new domestic and foreign capital will continue to flow, attracted by the good “brand” of Krakow as the tourist capital of Poland, and more recently as an international centre of business and science. Developers of the housing sector and the tourism industry, thanks to whom the historic properties have regained their former glory, are the future of the market.

The primary market

In comparison to previous years, the analysis of the primary market indicates that a decline in turnover is still visible in this segment of the market. The high activity of developers in the real estate market limits the development of projects in the segment of single-family housing. The market situation is deteriorating from year to year. Houses – because of the costs – are sold directly by developers.

Since 2012 there has been a clear decline in trading volumes and the number of transactions. In 2012, 90 transactions were recorded, which was a significant and surprising growth in comparison to 2011, which recorded 69 transactions. By contrast, in 2013 the number of transactions fell to 75 and it seems that the decline will continue in 2014. The estimated number of transactions in 2014 was 51, with a decrease in turnover from over 44 million PLN to 35 million PLN. This means a decrease in turnover by 20%. After a significant increase in turnover in 2012, we are dealing with a continuing downward trend. (Chart 1)

There is a strong variation in the activity of developers, as divided into the old districts of Krakow. In the last 3 years, there was 1 real estate development in the city centre, with minimum activity in Nowa Huta – although in the last two years there have been a few transactions recorded. As usual, developers have showed the highest activity in Podgórze, where the volume of sales was more than two times higher than in other districts in total.

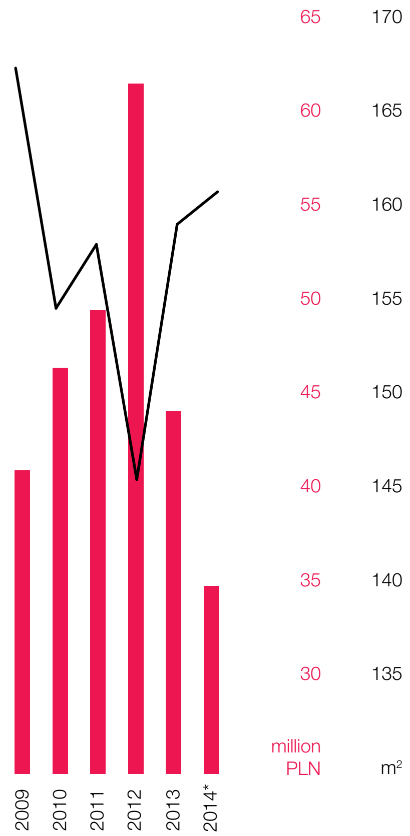


Chart 1.

Turnover and the average size of a single-family house in Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* estimated on the basis of incomplete data

■ Turnover (million PLN)

— Average usable floor area (m²)

Chart 2.

The average transaction prices and the average price for 1 m² of usable floor area

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* estimated on the basis of incomplete data

■ Average transation price (thousand PLN)

— Average price of 1 m² usable floor area

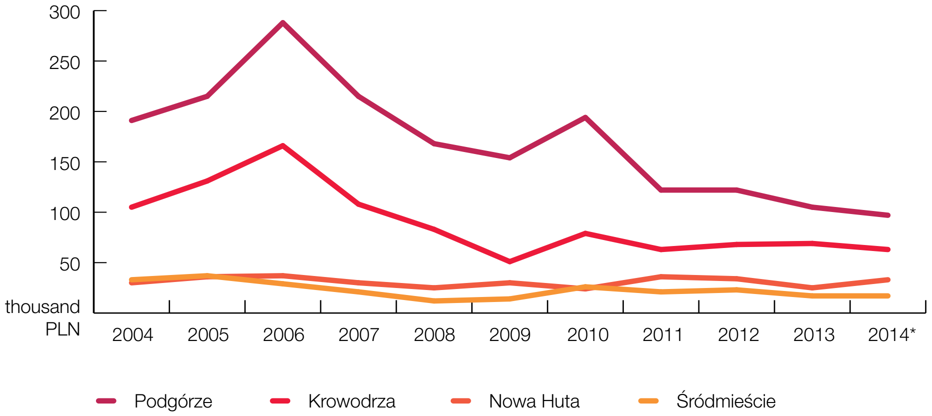


Chart 3.

Number of transactions of houses in Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* estimated on the basis of incomplete data

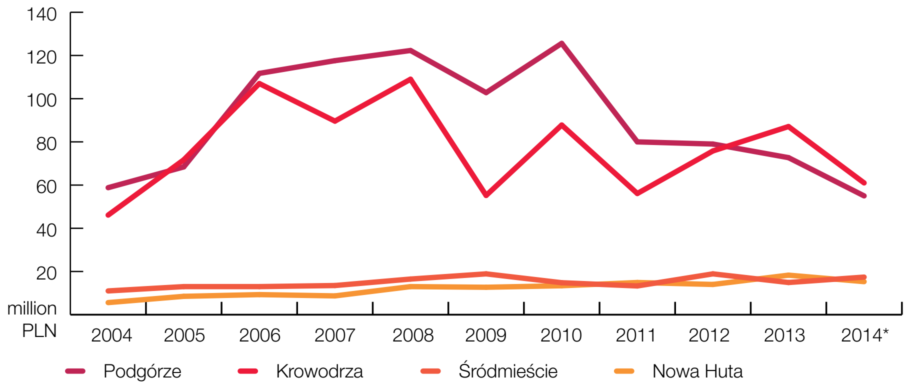


Chart 4.

Total turnover of houses in Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* estimated on the basis of incomplete data

The average transaction prices in 2013 fell by 14%, which could be due to the sale of buildings in stages less advanced than the developer stage and it seems that in 2014 the average prices will rise, and the expected decline in the period of two years will amount to 6%. The average price of 1 m^2 of usable floor area within 2 years will fall by 10%, while increasing the usable floor area of houses by 10%. The average area of a single-family house sold in the development market in 2014 amounted to 161 m^2 and has not changed since 2013. Prices ranged from 300 thousand to 2 million PLN for the property. (Chart 2)

The secondary market

The year 2014 did not record a recovery on the secondary market of houses in Krakow. The estimated number of transactions remained at a level similar to 2013. Every year in Krakow, little over two hundred houses are sold, which is less than 50% of the transactions made in the period of growth (2005-2007). (Chart 3)

2014 was yet another year in which turnover decreased, and the fourth in a row in which turnover failed to exceed 200 million PLN. As in previous years, by far the highest turnover was recorded in Krowodrza and Podgórze. Most transactions are concluded in Podgórze, and the most expensive homes are sold in Krowodrza. (Chart 4)

The average price for a house on the secondary market continues to decline. In the best period (2008) it was approx. 1 million PLN. Currently, on average, a real estate built up with a single family house on the secondary market costs slightly more than 700 thousand PLN. (Chart 5)

The continuing crisis is best illustrated by Chart 6. In 2014, for the first time, the highest number of transactions of houses with prices below 3 thousand PLN/m^2 was recorded.

Summary

In the primary market segment of single-family housing in the area of Krakow in 2014, a further decrease in turnover and number of transactions was observed. The average size of the sold house increased. Further decrease in the unit price indicates that the market of single-family houses is still strongly affected by competition from single-family houses built outside Krakow and tries to be competitive in relation to the prices of apartments in the area of Krakow. The diminishing area of plots for single-family houses confirms the need to maintain the price as low as possible.

In 2014, there have been no signs of recovery on the secondary market of single-family houses. The prices of houses are still high, which is an effective barrier for buyers. The home market outside Krakow (in neighbouring municipalities) continues to be very competitive. The average price for a house on the secondary market in Krakow is 700 thousand PLN. Such an amount outside Krakow allows to build or purchase a new house with an area of 150-200 m^2. The secondary house market is a market with limited supply. The number of houses built in Krakow is small, and in the near future they will not appear in the offer of the secondary market and therefore, fail to cause a recovery.

At the moment, it seems that the factors that could cause the revival of this market are macroeconomic factors, and these – as everyone knows – do not encourage to make decisions about buying expensive properties.

Chart 5.

The average price for a house on the secondary market

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* estimated on the basis of incomplete data

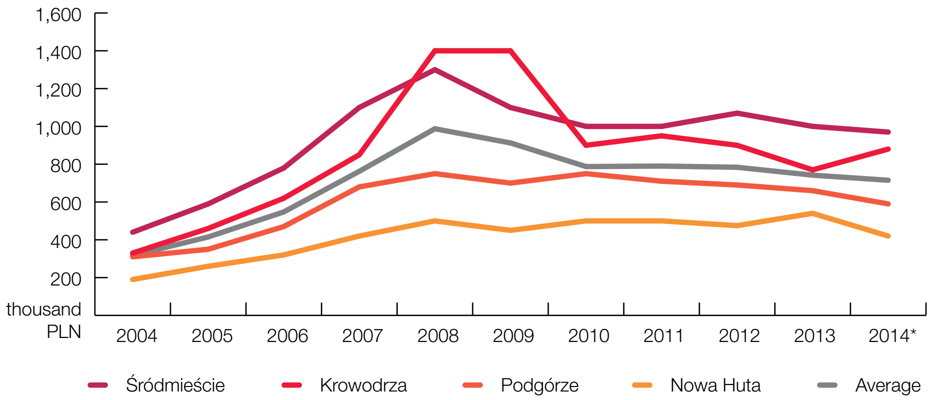
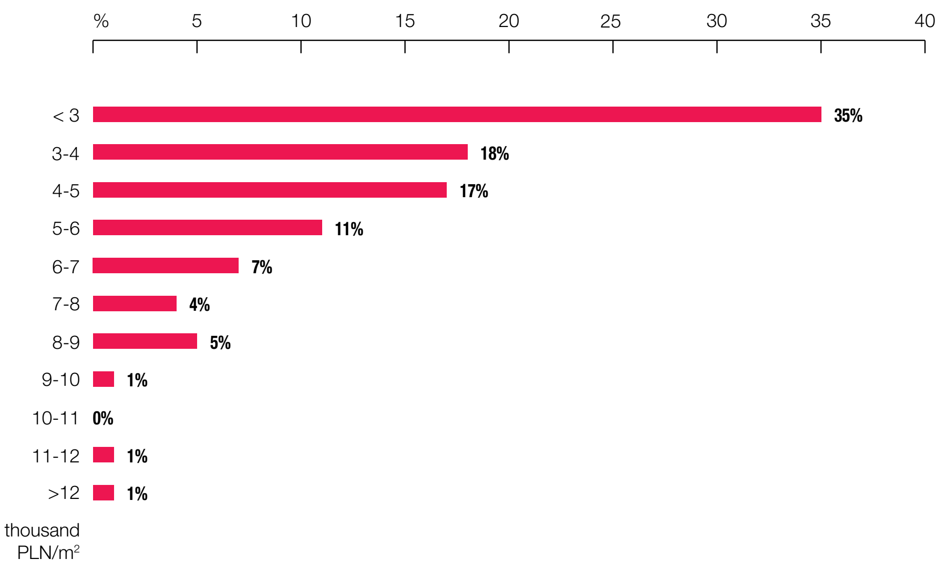


Chart 6.

The share of transactions in houses in particular price ranges in 2014

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl



SINGLE-FAMILY HOUSES IN THE SUBURBAN AREA OF KRAKOW

The year 2014 on the market of single-family houses in the county of Krakow, in terms of the number of transactions, was very similar to 2013 – in the last two years, this value has stabilized, slightly exceeding 600 purchase agreements. Still, market activity is much lower than in the record year of 2009 (692 transactions). As compared to 2013, the trading volume has slightly decreased. This means less money paid for a single property. (Chart 1)

Data from 2014, presented on the following charts, was approximated due to the lack of data from all regions.

Trend lines generated for a wide interval in the county of Krakow indicate a stabilization in 2015.

Data covering transactions from the county of Wieliczka indicates significant recovery – in terms of the number of transactions, the increase between 2013 and 2014 was 28% and increase in terms of the volume of trading amounted to 37% year on year.

The analysis of the trend line for the county of Wieliczka shows a sustained upward trend, both in the number of transactions and the trading volume. (Chart 2)

In 2014, the largest number of transactions of single-family houses was recorded in the municipalities of Zielonki, Zabierzów and Mogilany. When comparing data from 2013, it is worth paying attention to a significant increase in the number of transactions in the municipalities of Liszki and Kocmyrzów-Luborzyca and a decrease – in Mogilany and Zabierzów.

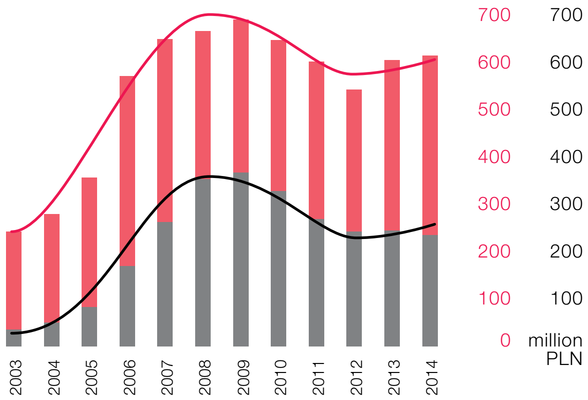


Chart 1.

The number of transactions and trading of houses in the county of Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

Number of transactions

Trading

Trend line

Trend trading

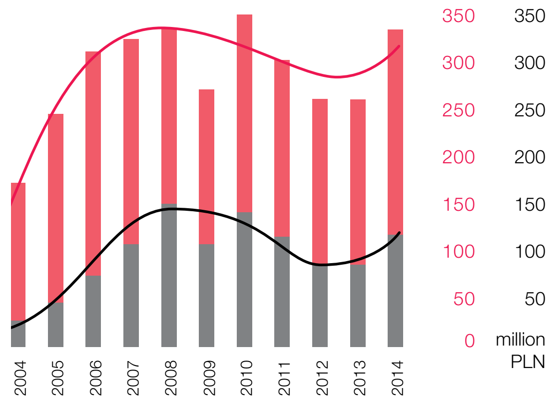


Chart 2.

The number of transactions and trading of houses in the county of Wieliczka

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

Number of transactions

Trading

Trend line

Trend trading

Chart 3.

The average transaction price for a house in the municipalities of the county of Krakow and Wieliczka

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

2011 2012 2013 2014

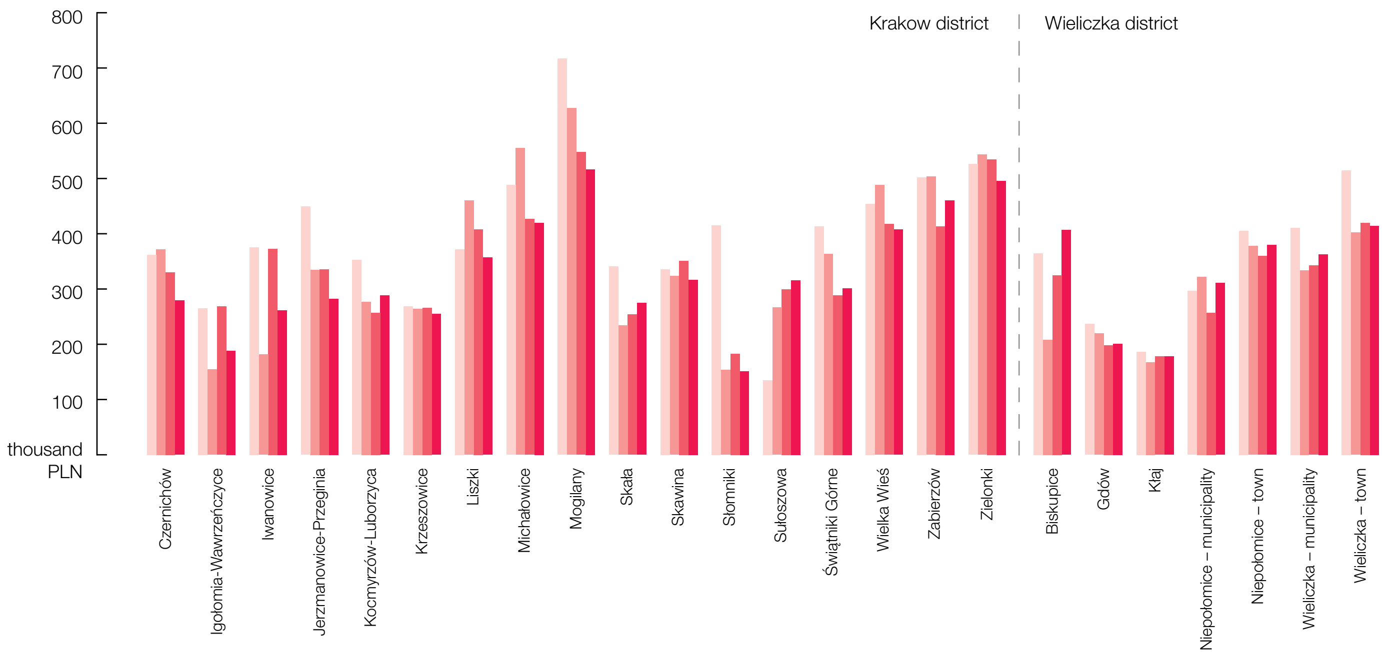


Chart 4.

The number of transactions and trading of houses in the municipalities of the county of Krakow in 2014

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

Turnover (thousand PLN)

Number of transaction

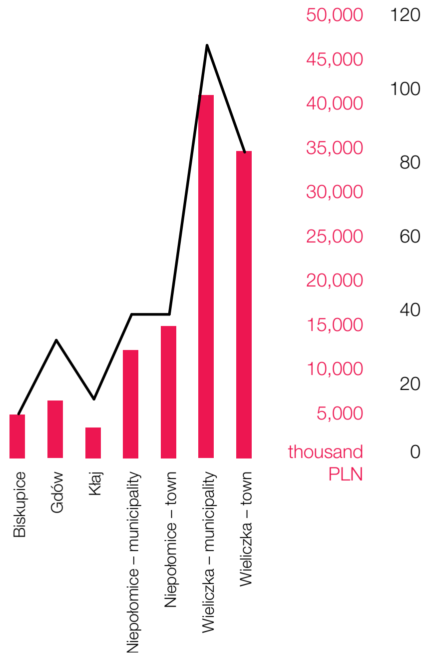


Chart 5.

The number of transactions and trading houses in the county of Wieliczka

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

The maximum values on the graph of trading volume correspond to the maximum values of the number of transactions. (Chart 4) The highest trading price in 2014 was recorded in the municipality of Mogilany – nearly 2.5 million PLN was paid for a 26-are property.

In the county of Wieliczka, transactions in the town and villages of the municipality of Wieliczka dominated. (Chart 5) The most expensive transaction was the purchase of a house in the municipality of Biskupice – a new building on a 12-are plot was bought for almost 1 million PLN.

The historical analysis of average transaction prices for real estate in the county of Krakow, in most municipalities with the most developed market, shows a downward trend. In the municipalities of Skała and Sułoszowa, for the third time in a row, there was an increase in the average amount spent on the purchase of a single-family house. Data indicates a decrease in the differences between prices in particular municipalities. In the town and municipality of Wieliczka, the average prices for a house are beginning to stabilize; only in the municipality of Biskupice there was a significant increase. (Chart 3)

In the county of Krakow in 2014, for the fourth time in a row, there was an increase in the number of transactions in which the selling party was a natural person. The activity of developers in the last three years has remained at a constant level of 200-230 transactions, which should be considered as a positive sign in the current market. (Chart 6)

In the county of Wieliczka, the number of transactions in real estate development increased for the third time in a row. Equally optimistic information result from data concerning transactions made by individuals – for the first time in three years there has been an increase in the number of such transactions. (Chart 7)

The analysis of the price of 1 m^2 in development transactions in the county of Krakow shows – as in previous years, that in municipalities with a large number of such transactions there has been a significant difference between the maximum and minimum price, depending on the stage of completion of the sold building. (Chart 8)

In the county of Wieliczka, developers conducted their activities mainly in the municipalities of Niepołomice and Wieliczka. When comparing the average price per 1 m^2 of usable floor area in the years 2014 and 2013, there has been an increase in the minimum. (Chart 8)

Summary

In 2014, the number of transactions stabilized (county of Krakow), or even increased (county Wieliczka), which is a positive sign from the real estate market.

Unit prices should be analysed separately for each municipality, generally there is a smaller difference between prices in the most expensive and least expensive municipalities.

There is still a lot of interest in cheaper properties located outside the borders of Krakow.

In 2014, developers maintained their activity in the municipalities around Krakow at the level from 2013 and 2012, while in the county of Wieliczka this type of activity recorded an increase.

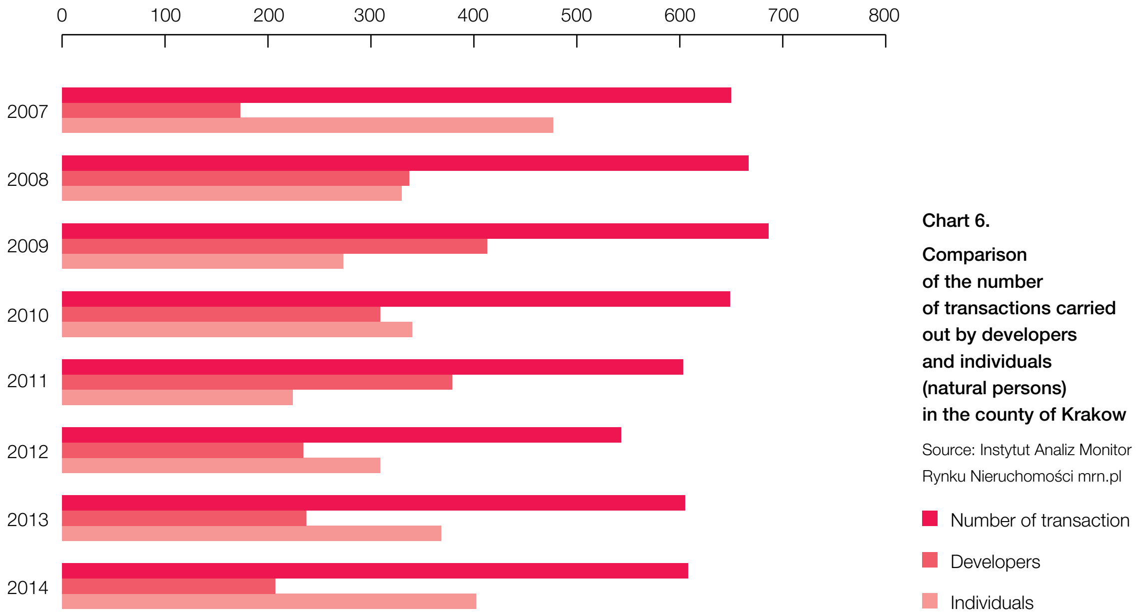


Chart 6.

Comparison of the number of transactions carried out by developers and individuals (natural persons) in the county of Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

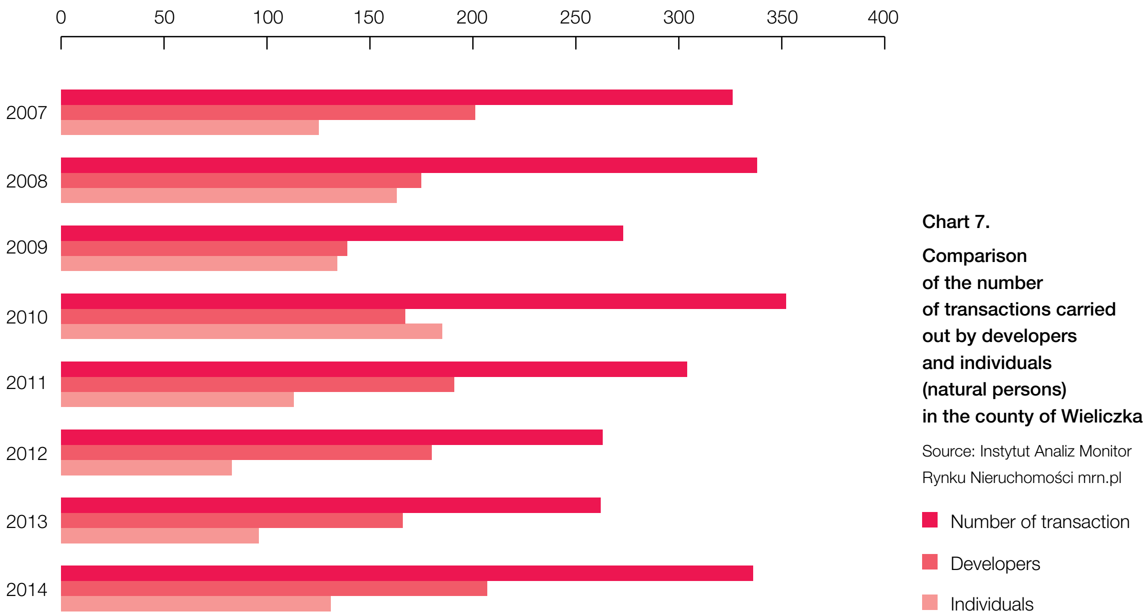


Chart 7.

Comparison of the number of transactions carried out by developers and individuals (natural persons) in the county of Wieliczka

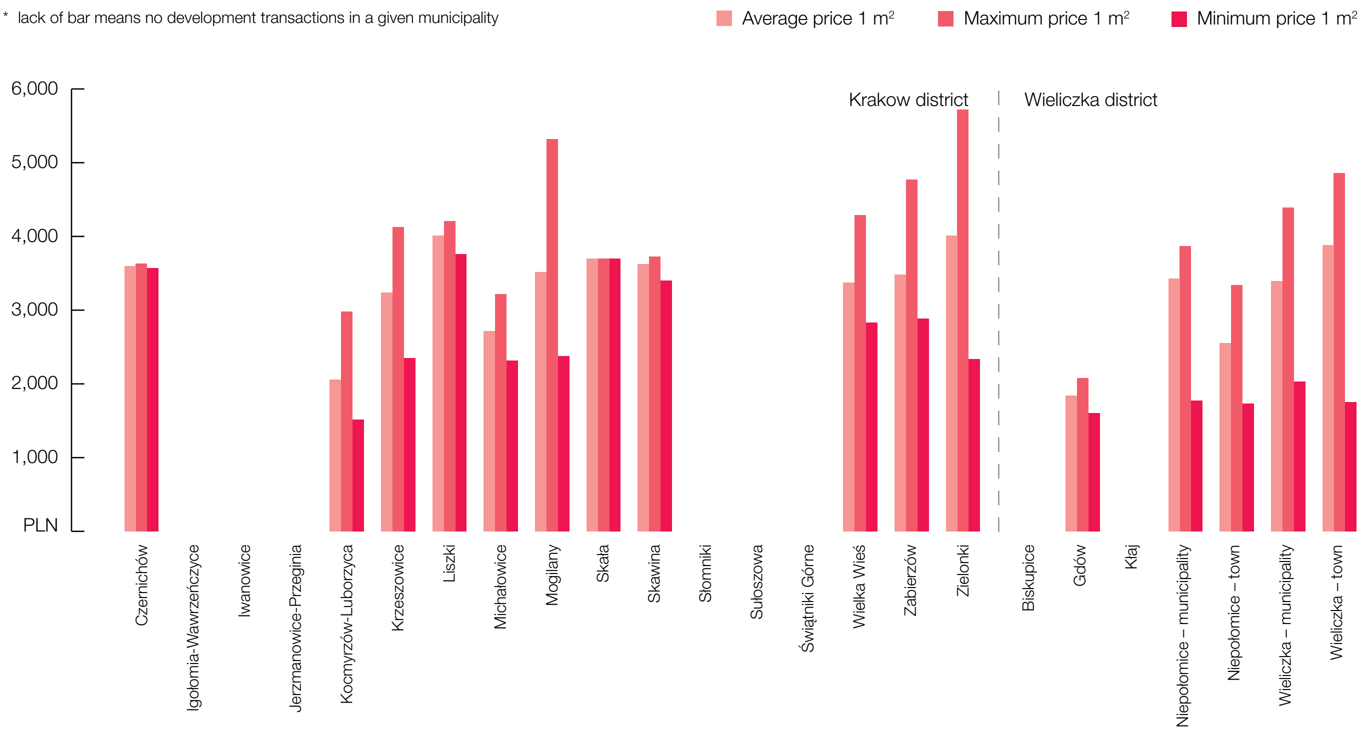
Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

Chart 8.

Minimum, average and maximum prices per 1 m² of a house in the municipalities of the county of Krakow and Wieliczka in development transactions* in 2014

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* lack of bar means no development transactions in a given municipality



LAND IN KRAKOW

In 2014 the land market in Krakow was still affected by the recovery from the second half of 2013. This trend was related to investment land, primarily for residential multi-family buildings and commercial land for office development. A good example of recovery is the example of several transactions with prices above 10 million PLN.

Increased activity may be explained by the belief that at the end of 2012 and in the first half of 2013 prices reached the lowest possible level and part of the capital from bank deposits was transferred to the land and housing market. At the same time, there was a new influx of capital from investment funds, especially foreign funds: investors with "cheap money", looking for an alternative to the record-low interest rates of safe treasury bonds. This is also confirmed by a large sale transactions of built-up commercial real estate.

In Krakow there was an increase in the number of transactions on the land market, with an increase in turnover as compared to 2013. Preliminary data indicates a turnover of about 750 million PLN, with approx. 800 transactions. However, we should remember that these are preliminary data, and due to the growing demand in the last quarter of the year part of the transaction have not been disclosed.

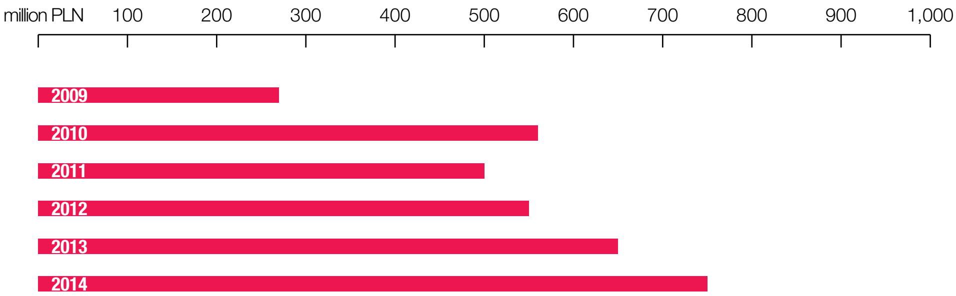


Chart 1.

Trading on the land market in Krakow*

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* Charts do not include land purchased by the Municipality and the State Treasury in connection with the investment in road infrastructure and the contributions made between different entities. Preliminary estimates for 2014

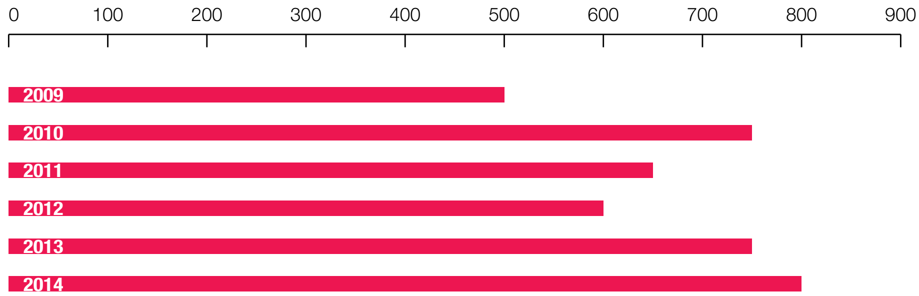


Chart 2.

The number of transations on the land market in Krakow*

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl

* Charts do not include non-market transactions, land purchased by the Municipality and the State Treasury in connection with the investment in road infrastructure and the contributions made between different entities. Preliminary estimates for 2014

In the poor year 2009 there were approx. 500 transactions, at a very low value of turnover of 270 million PLN. In 2011 there were approx. 650 transactions with a value of turnover of 500 million PLN. The revised data for 2012 showed about 550 transactions with a value of turnover of about 550 million PLN. The data for 2013 indicate about 750 transactions, with turnover of about 650 million PLN. Preliminary data for 2014 indicate 800 transactions, with turnover of about 750 million PLN, which as compared to 2013 is an increase in the number of transactions by about 7%, and the value of turnover increased by approx. 15%.

Statistics indicate an increase in the unit value of transactions and the emergence of new funds on the land real estate market that have been transferred from bank deposits and also, to some extent, from the bond market, which have reached record low yields. The emergence of new, often inexperienced market players indicates an upward trend, but is also a warning against excessive optimism. (Chart 1, 2)

In 2014, the average transaction price of building land in Krakow amounted to more than 600 PLN/m^2 and significantly increased as compared to the year 2013, where the price was approx. 480 PLN/m^2. This was a result of the fall in the number of transactions concerning plots for single-family houses and an increase in the number of transactions concerning multifamily housing, and a significant increase in the average price of land intended for services.

Invariably, the largest quantity share of traded land, as in previous years, included plots intended for single-family housing. Their share in transactions of construction land declined in 2014 to 50% from 60% in 2013.

Considering the value of transactions, the land real estate market was dominated by land intended for residential multi-family and residential and service buildings, whose share in the land trade increased by another 10% as compared to 2013 and amounted to over 55%. The increase in turnover in the segment of land for residential multi-family and residential and service buildings was at the expense of plots for single-family houses, whose share fell below 15%. Turnover on service plots remained at approx. 30%, similarly as in 2013.

The land market for residential multi-family and residential and service buildings in terms of number and value of trading was unbalanced in different districts. Investors focused on the areas of Podgórze and Krowodrza, which accounted for almost 75% of turnover.

Krowodrza has become a leader in terms of turnover in this segment, with nearly 45% of market share, despite the decline in the average transaction price to about 900 PLN/m^2. The decline in prices is due to the dominant number and value of transactions in the area of the widely understood Bronowice and surrounding areas, where land has less intensive development. The prices of housing rose in relation to 1 m^2 of usable floor area.

The average annual prices fell in Nowa Huta (as in Krowodrza, due to the purchase of land with a lower intensity of development) and have not changed in Podgórze. In the city centre, the average price rose to more than 3,000 PLN/m^2 due to transactions in Kazimierz and the strict city centre (streets: Piłsudskiego, Żółkiewskiego, Czarnowiejska).

Good sale results of apartments achieved by developers in 2013 encouraged them to replenish the land bank. New players appeared on the market attracted by the sale results and a vision of solid gains in the development industry.

The most interesting transactions involved the sale of land for multifamily housing – at Katowicka Street (Bronowice): with an area of nearly 7 hectares for nearly 90 million PLN (1,280 PLN/m²) and at Buszka Street: 2.6 hectares for less than 22 million PLN (835 PLN/m²). In Nowa Huta at Centralna Street the developer acquired over 7 hectares of land designated for services in the zoning plan for 16 million PLN, which is in the process of judicial proceedings to annul it. In Podgórze at Ludwinów, a plot at Spiska Street, with an area of 1.7 ha was acquired by a developer (Echo Investment) for a price of over 32 million PLN, but it was also the subject of the transaction in 2013 for a comparable price, so the transaction may have been only a formal transfer. (Chart 3)

The market of plots intended for residential single-family houses, despite the existing supply, showed – in comparison with the year 2013 – an increase in the average price in Krowodrza and Podgórze. Market participants focused on good, more expensive locations, avoiding the risk of less esteemed locations. The average transaction price of plots for residential single-family housing fell in Nowa Huta, but its number was relatively low.

The market of plots intended for services (commercial buildings) continued its upward trend that began in 2012. It can be said that in 2014 the market picked up speed, especially in the segment of land for office development. There were some very interesting transactions, thanks to which the average transaction price of plots intended for services increased significantly in 2014 to 1,200 PLN/m² from 950 PLN/m² in 2013. The prices of commercial land intended for commercial usage ranged from 300 to 1,800 PLN/m². The prices of commercial land intended for office development ranged from 600 to 3,000 PLN/m².

The most interesting transactions involved the purchase of land with an area of approximately 20 a intended for a hotel in the vicinity of Galeria Krakowska, with a unit price of 9,850 PLN/m² and an area of more than 2 ha for office develoment, also in the area of Galeria Krakowska, with a unit price of almost 3,000 PLN/m² and the transaction price at nearly 70 million PLN.

In the market of industrial plots, generally found in Podgórze and Nowa Huta, there was stagnation, with a small number of transactions. The price level in the major industrial areas of these districts was similar or slightly lower as compared to 2013, i.e. in Podgórze – in the range 120-250 PLN/m², and in Nowa Huta – in the range between 60-200 PLN/m².

Summary

Overall, the land market in Krakow was characterized by recovery started in mid-2013, which is confirmed by the increase in the volume of transactions and turnover. The most active market was in the segment of plots for residential multi-family and residential and service buildings. Developers replenished land banks, new players appeared on the market attracted by the prospects of solid profits.

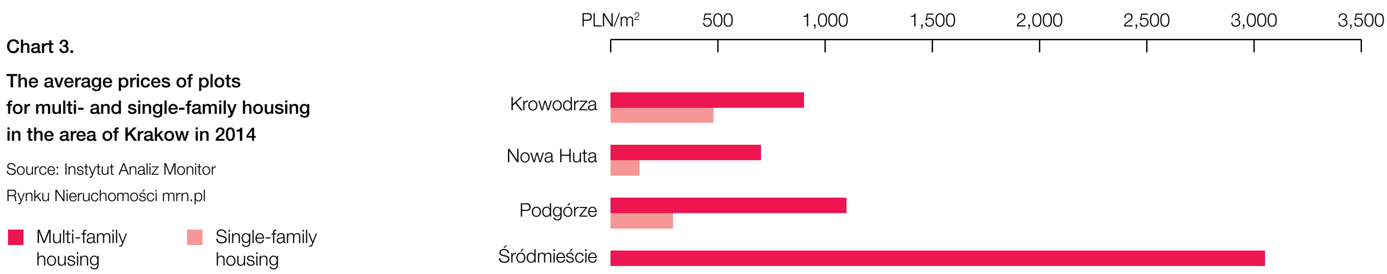
The commercial plots segment maintained its favourable trend from the 2012 and 2013. There was continued interest in plots for office development. Record low interest rates worldwide and excess liquidity of certain funds, especially foreign funds, results in the fact that capital searches for alternative investments in relation to low-interest treasury bonds and part of it goes to the commercial real estate market – including the land market.

The segment of plots for single-family housing showed an increase in relation to the average transaction price (with the exception of Nowa Huta), where the number of transactions dropped.

Chart 3.

The average prices of plots for multi- and single-family housing in the area of Krakow in 2014

Source: Instytut Analiz Monitor Rynku Nieruchomości mrn.pl



LAND IN THE SUBURBAN AREA

In contrast to the previous years of analysis, in 2014, the real estate market the county of Krakow witnessed an increase in the number of transactions. An increased number of transactions does not imply an increase in average unit prices, which show a slight downward trend. (Chart 2) This situation is a result of the increase in the number of transactions of agricultural land, and a stabilization of demand for land for residential purposes.

A corresponding situation occurs on the real estate market in particular cadastral units. The analysed municipalities show relative price stability, with a slight downward trend in Jerzmanowice, Skawina, Zabierzów. The precursor of the recovery phase seems to be the municipality Świątniki Górne and Zielonki, where the average prices in the last three years have been progressive. In other units, price fluctuations indicate a phase of depression (end of decrease, the analysed values remain at a low level, similar to previous years of exploration). (Chart 3)

Invariably, in the last few years, the most expensive municipalities are Zielonki, Wielka Wieś, Zabierzów and Mogilany, only their order in the ranking changes. Currently, the maximum price is recorded in Zielonki, and the minimum price in the municipality of Igołomia-Wawrzeńczyce.

Chart 1.

The number of land transactions and trading volume in the county of Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

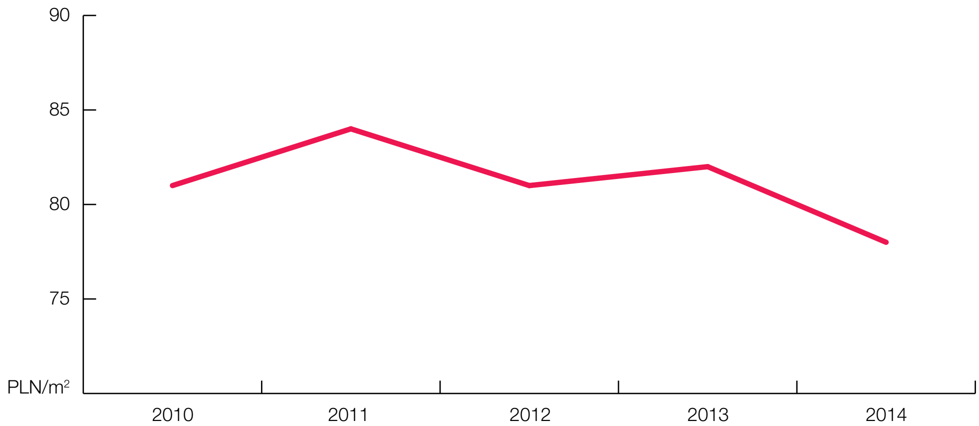


Chart 2.

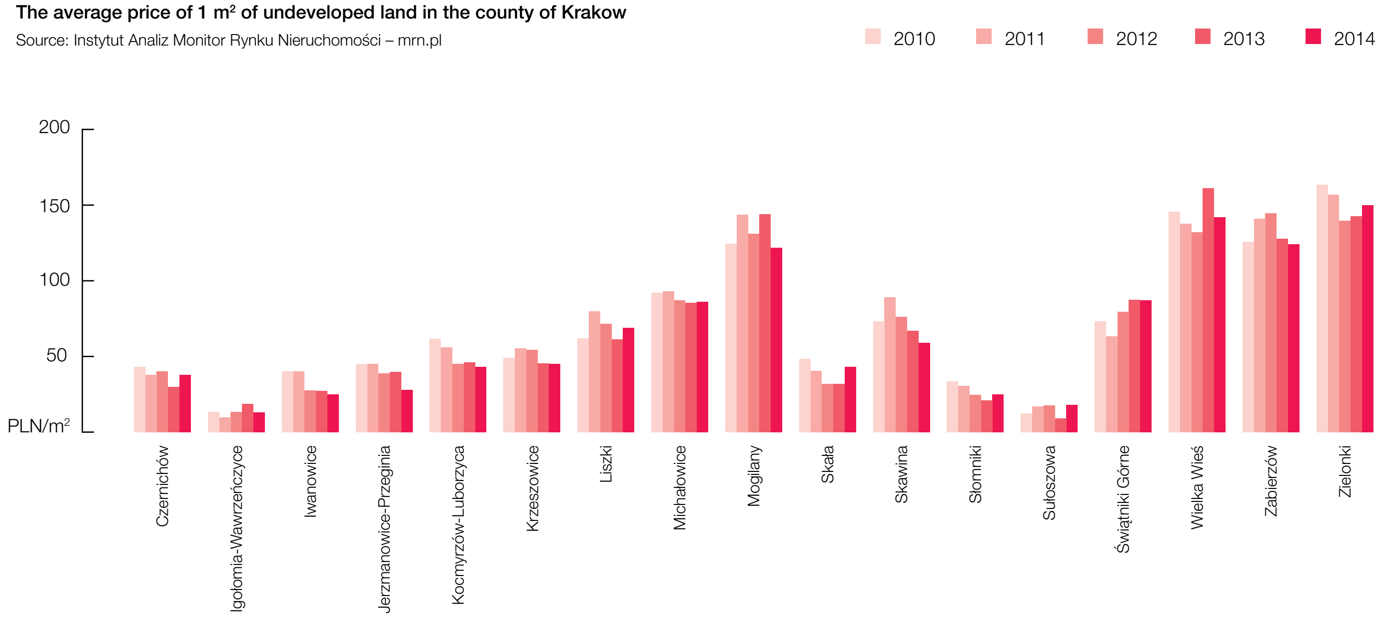
Average price of 1 m² of undeveloped land in the county of Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Chart 3.

The average price of 1 m² of undeveloped land in the county of Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl



Undoubtedly, the major price emitter is the city of Krakow, whose proximity implies the highest prices. Demand for land near Krakow is constantly high. The further away from Krakow, the cheaper. The reversal of this trend occurs in the area of the so-called local centres, namely smaller urban centres.

Similarly to the previous years of analysis, in 2014, the land market of the Krakow county is determined by land intended for housing development, constituting about 59% of all transactions. Second, in terms of the number of transactions, is agricultural land (including land for green areas), constituting approx. 36% of the total transactions. Land intended for other purposes was an insignificant part of the relevant market. (Chart 4)

A small number of transactions of land other than housing and farming land, and a significant price range result in the fact that averaging or aggregation operations can lead to wrong conclusions. In view of the above, this part of the market has been omitted and is not the subject of further analysis.

Fluctuation of average unit prices in the analysed real estate market segments is insignificant. The year 2014 implies their progress both in the housing market, as well as agricultural land market.

In terms of the number of transactions, the largest increase – about 30% – was recorded in the sector of agricultural land (a relative difference in the number of transactions in the analysed segment of the market between 2013 and 2014), with a relatively stable demand for residential land. It should be noted that a slight decrease in the number of real estate transactions for residential purposes concerned the peripheral municipalities of Krakow, which are of an agrarian character. In the neighbouring municipalities, the demand for residential land was still high. (Chart 6 and 7)

Chart 4.

The structure of transactions according to the use of land in the county of Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

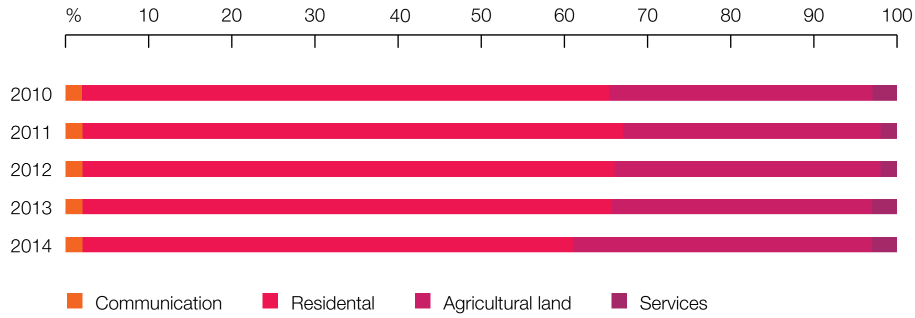


Chart 5.

Average unit prices of land for residential and agricultural purposes in the county of Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

With regard to the average unit prices, the residential land market is characterized by relative stability. The exception is the municipality of Skała, in which there was a significant price disparity, which is the result of transactions in expensive real estate situated in the town of Skała. The municipality of Skawina is the only municipality of the Krakow county which has not emerged from the phase of crisis. The area has recorded a permanent decline in the prices of residential land. (Chart 8)

The agricultural land market is undoubtedly the precursor of the recovery phase, both in terms of the number of transactions, as well as the average unit price. The demand for this type of land affects the growth of unit prices. The highest price of land for agricultural purposes was recorded in the municipality of Zielonki. (Chart 9)

The price of land for residential purposes (investment) is determined by the distance from Krakow and local centres in particular cadastral units. A similar situation is in the field of agricultural land, whereas this sector of the market seems to be more harmonious.

In the five-year period of analysis, the largest group of buyers of plots of land were individuals, the second largest group consisted of entrepreneurs (companies, partnerships, natural persons conducting business activity, etc.), the third, small group, were local government units and other institutions. In typically agricultural municipalities, the share of entrepreneurs was negligible. (Chart 10)

Summary

The land market is slowly emerging from a phase of depression to recovery.

The forerunners of the recovery are the following municipalities: Zielonki and Świątniki Górne.

In 2014 there was an increased demand for property for agricultural purposes and an increase in their unit prices.

In the sector of construction land, we have observed stabilization of unit prices and the number of recorded transactions.

Chart 6.
The number of transactions in residential land in the county of Krakow
Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

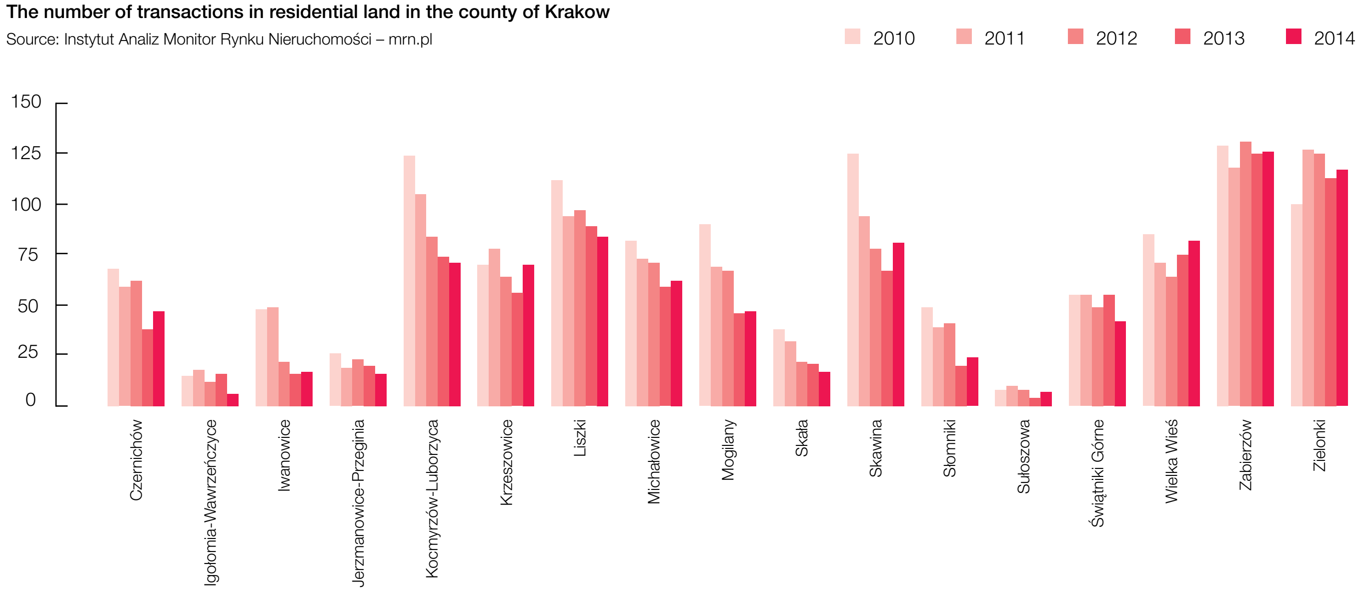


Chart 7.
The number of transactions in agricultural land in the county of Krakow
Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

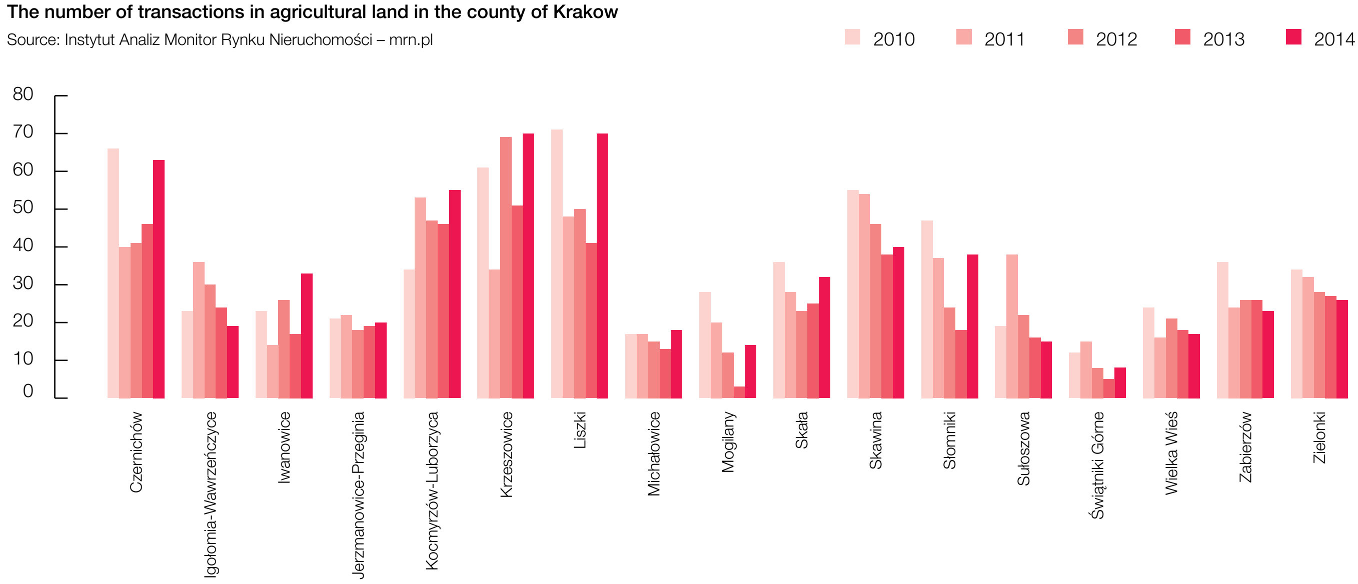


Chart 8.
The average price of 1 m² of land for residential purposes in the municipalities of the county of Krakow
Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

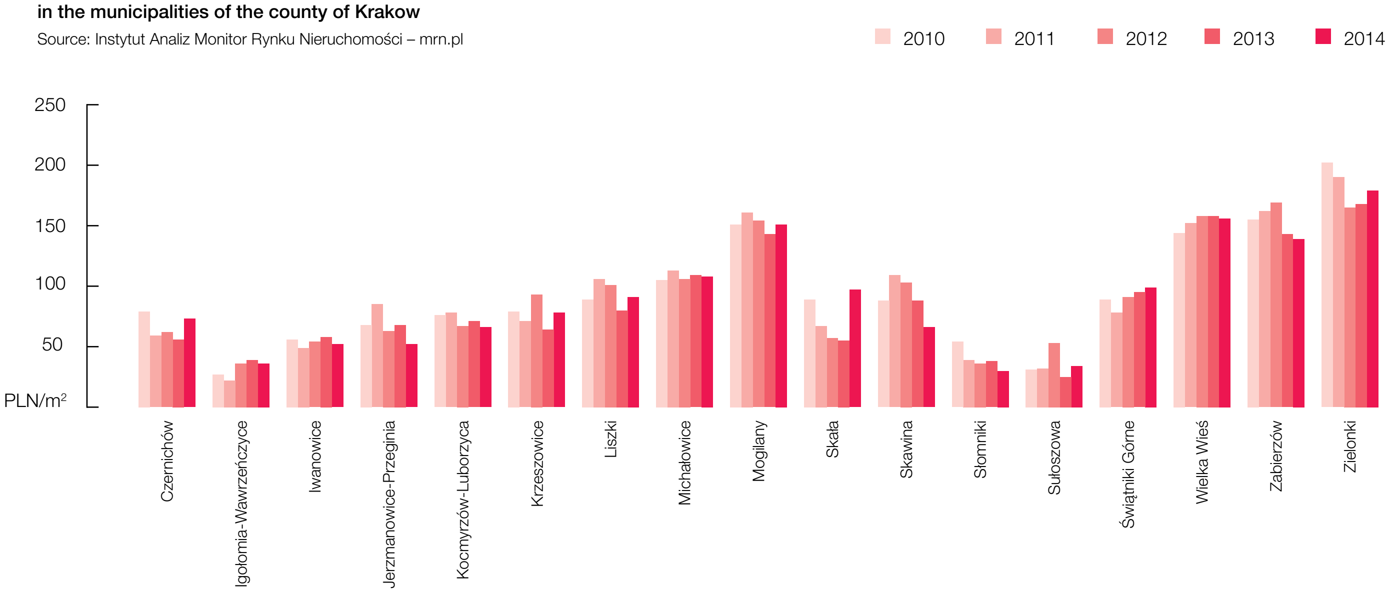


Chart 9.
The average price of 1 m² of land for agricultural purposes in the municipalities of the county Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

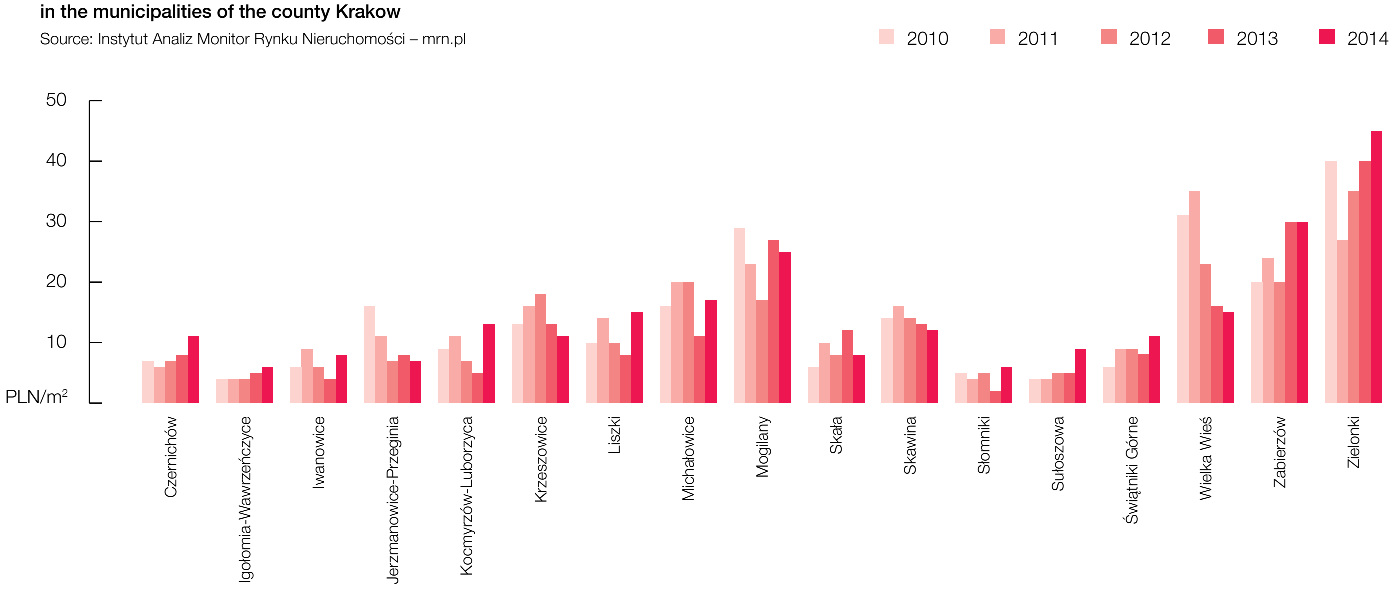


Chart 10.
The sum of land transactions according to buyers in the county of Krakow

Source: Instytut Analiz Monitor Rynku Nieruchomości – mrn.pl

Municipality

Natural persons

Entrepreneurs

KRK>2B

Krakow to business

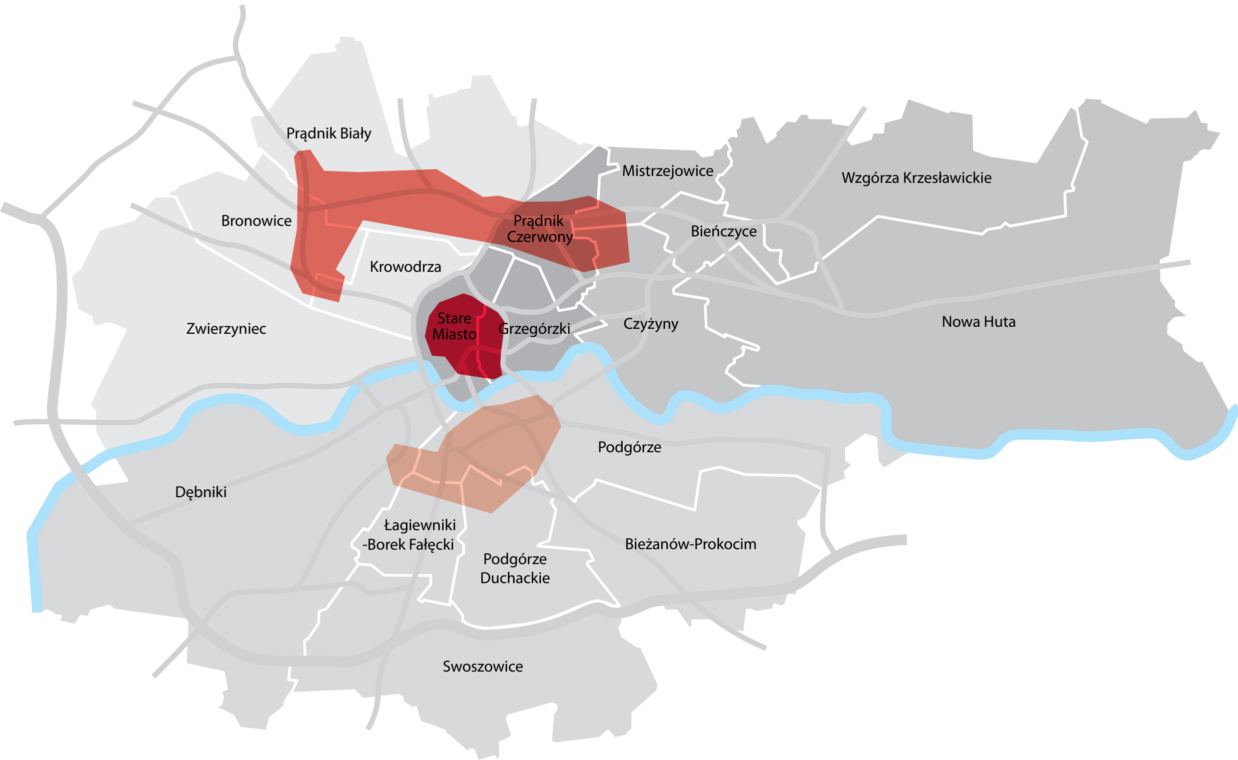
Wydział Rozwoju Miasta / Urząd Miasta Krakowa
City Development Department / Municipality of Krakow

wr.umk@um.krakow.pl   www.krakow.pl

KRAKÓW
krakow.pl

Major areas of office concentration in Krakow

Source: Knight Frank



	City Centre	North	South
Rentable stock:	103,500 m^2	232,900 m^2	227,500 m^2
Under construction:	43,200 m^2	47,300 m^2	37,100 m^2
Vacancy rate:	4.7%	6.6%	3.8%
Rents:	13-14.5 EUR/m^2/month	10-14 EUR/m^2/month	10-14 EUR/m^2/month

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