



# **K**RAKOW

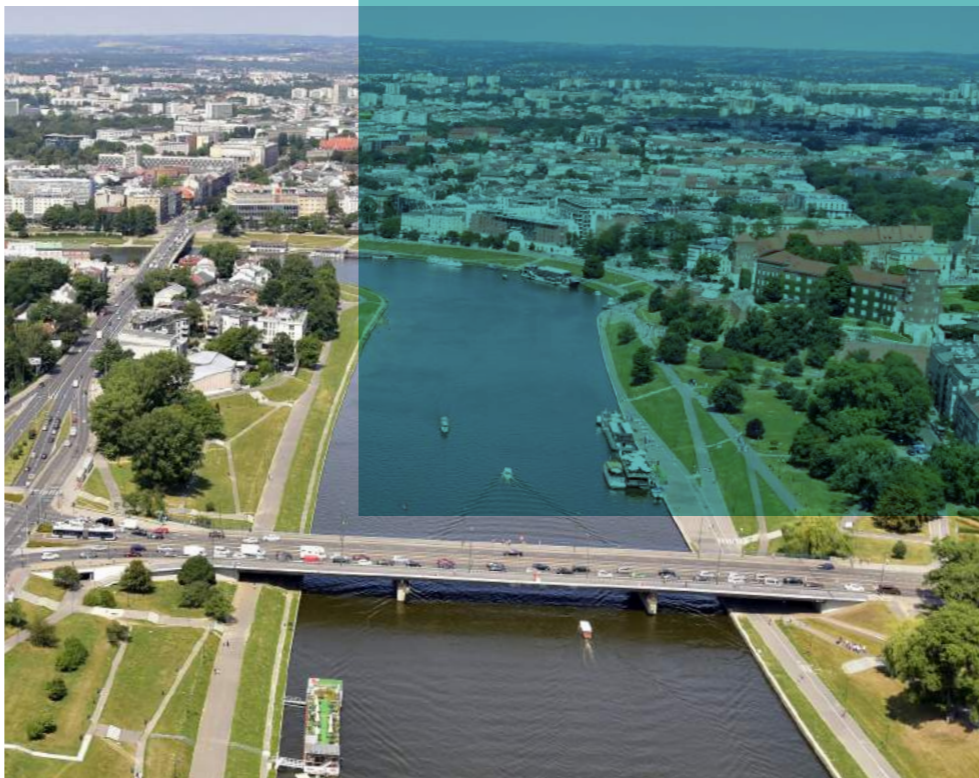
## **Real Estate Market**

**2020**

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# About Krakow



KRAKOW HAS BEEN CONSTANTLY DEVELOPING AND ITS POPULATION HAS BEEN GROWING



**781,000**  
RESIDENTS



**327**  
SQ M



**2,380**  
PEOPLE/ SQ KM

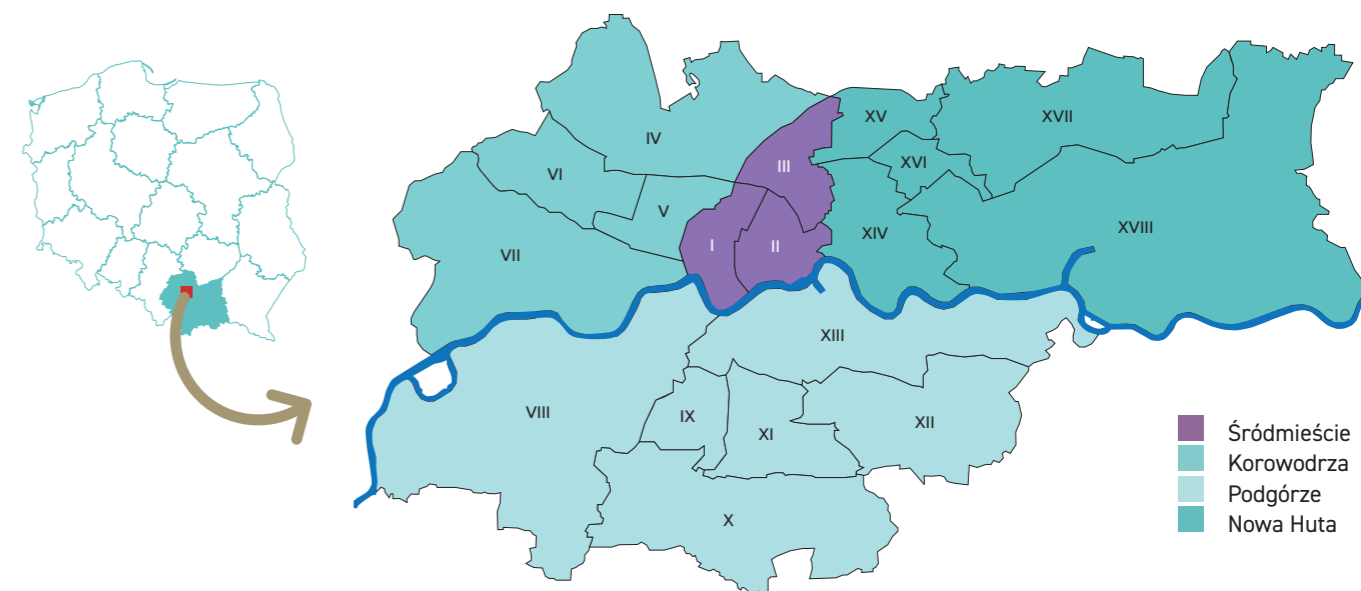


**1.3%**  
BIRTHRATE



**2,840**  
INTERNAL MIGRATION  
BALANCE

## KRAKOW - ADMINISTRATIVE DIVISION



Both the birth-rate and the internal migration balance remain positive. Following their graduation, many students choose Krakow as their place of residence and work.

Graduates of Krakow's universities account for approximately 70% of employees of companies in the business services sector, including the modern technologies and R&D sectors. The high quality of teaching in higher education establishments translates into a high position for Krakow in the economic and labour market rankings.

Krakow is host to the seats of the following institutions: **the National Science Centre Poland, the Polish Academy of Arts and Sciences** and a branch of **the Polish Academy of Sciences** with 21 institutes and studios.



**23**  
SCHOOLS OF HIGHER  
EDUCATION  
including  
5 universities



**130,000**  
STUDENTS



**35,000**  
ANNUAL NUMBER  
OF GRADUATES

As a city with high academic potential, Krakow focuses on attracting events related primarily to modern technologies and science, with a particular emphasis on medicine. These events take place in dedicated venues: ICE Krakow Congress Center, Tauron Arena Kraków and EXPO Kraków.

The advantage of Krakow lies with its highly developed hotel and restaurant infrastructure, as well as the wide range of attractions and cultural events on offer. The city attracts tourists with its beauty, unique atmosphere, and its unique historical heritage of priceless architectural buildings and structures.

The Old Town area was placed on the 1st UNESCO World Cultural and Natural Heritage List in 1978, and in 2013 **Krakow was awarded the title of UNESCO City of Literature.**

Krakow lies within easy reach. It is located close to the A4 motorway which connects Germany and Ukraine, as well as being near the A1 motorway which runs from the Tricity to the Czech border. The S7 express road to the north of the city will ultimately connect Krakow, Warsaw and Gdańsk. Poland's largest cities are easily reachable by the trains which stop at Krakow's Main Station in the city centre. Inter City (ICE) trains to Warsaw leave almost every hour, with the journey taking about 2.5 hours. The Krakow/Balice International Airport is 10 km from the city centre, and is the largest regional airport in Poland. From the city centre, it can be reached by fast train (SKA) in 20 minutes, or by taxi in 25 minutes, and city bus in 40 minutes.

## KRAKOW IN 2020 BUSINESS RANKINGS

In the **Tholons Global Innovation Index 2020** ranking, Krakow remained in the **Top 100 Super Cities** ranking, at 25<sup>th</sup> place.

Kraków was placed 10th in the latest fDi Tier 2 Cities of the Future 2020/21 ranking in the business friendliness category. This ranking aims to take a closer look at non-capital cities that attract investors. Due to the lack of a standard definition, the ranking defines secondary cities as non-capital cities that have a population of less than eight million, and attract between 1% and 20% of total national FDI projects. This category of cities is also described in the Krakow Development Strategy 2030, where Krakow as

a second-tier European city is a place of global attractiveness, innovation, and an engine for economic growth, as well as representing a high level of social cohesion, with a wealth of democratic platforms and cultural diversity.

Kraków was included in the **Top 25** of the international ranking of the **Tech Cities of the Future 2020/21** prepared by the fDi and TNW. The ranking gathers information for 76 locations in the following categories: economic potential, innovation and attractiveness, results acquisition of direct foreign investments, cost effectiveness and start-up environment.

In the **fDi European Cities and Regions of the Future 2020/21**, ranking, which has been overseen for many years by the prestigious publisher's fDi Magazine, Krakow received recognition in the following categories:

- Top 10 Eastern European Cities of the Future 2020/2021 - **rank 10**
- Top 10 Large European Cities of the Future 2020/2021 - **rank 8**
- Top 10 Large European Cities of the Future 2020/2021 - category: **economic potential - rank 7**
- Top 10 Large European Cities of the Future 2020/2021 - category: **business friendliness - rank 7**



## BSS SHARED SERVICES SECTOR IN KRAKOW

- ▶ **234** centres employing **78,000** employees, including:
  - 36,500 in SSC / GBS centres
  - 16,200 in IT centres
  - 13,600 in BPO centres
  - 10,300 in R&D centres
- ▶ **41** centres employing at least 500 people
- ▶ 23% of BSS employees in Poland work in Krakow
- ▶ 90% of employees with higher education, specialists in the fields of: finance, HR, IT, law, supply chain, marketing
- ▶ 29 languages spoken on a daily basis
- ▶ **PLN 12.6bn** total annual value generated by the sector



**234**



**78,000**

COMPANIES AND EMPLOYEES  
EMPLOYED IN THE SERVICE CENTRES:  
SSC, BPO, IT, R&D

Source: ABSL

According to research conducted by **Antal, Cushman & Wakefield** and **Vastint, Krakow** remains the leader in terms of employment in the SSC / BPO sector. The city is also at the forefront of research and development centres (R&D) and the manufacturing industry.

According to the **ABSL 2020** report, the business services sector may face the effects of the crisis caused by the SARS-Cov-2 pandemic to a lesser extent than industry or other areas of service activities. Companies from

the business service sector are characterized by a high flexibility and adaptability in response to the crisis that has affected the Polish and global economies. In addition, ABSL analyses show that the Polish business services sector may benefit from the crisis, similar to the entire CEE region. The research carried out by ABSL in mid-November 2020 shows that over 21% of surveyed companies had moved some of their currently handled business processes to Poland since the outbreak of the pandemic.



**KRAKOW REMAINS ONE OF THE MOST RECOGNIZABLE SCIENTIFIC AND ACADEMIC CENTRES IN POLAND**



**KRAKOW - PRIME LOCATION IN EUROPE FOR COMPANIES REPRESENTING BSS BUSINESS SERVICES SECTOR**



**KRAKOW LARGEST CENTRE FOR BUSINESS SERVICES IN POLAND**

**COMPETITIVE INDEX 2020 - THE COMPETITIVENESS OF CITIES THROUGH THE EYES OF A CONSULTING AGENCY**

The **DESTINATION COMPETITIVE INDEX** report on the **destinations of international congresses** has been published for the third time. The report reveals results of an analysis of the top destinations' parameters determining the selection of venues for the organization of congresses and conferences. Krakow was

ranked 68th in the latest ranking - evidence that Krakow's congress potential is made good use of. It is worth noting that the city competes internationally for congresses and conferences with the largest cities in Europe and across the world.



**ICE KRAKOW AMONG THE BEST CONGRESS CENTRES IN EUROPE**

The ICE Kraków Congress Center has been recognized for the sixth time in the Meetings Star Award. As in the previous year, ICE Kraków was honoured with a gold quality certificate in the Convention Centres category, obtaining a score of 4.91 on a five-point scale.

SOURCE: Krakow Convention Bureau

**KRAKOW IS ONE OF THE GREENEST CITIES IN THE WORLD**

According to the newest international ranking, Krakow ranks **5<sup>th</sup>**, as one of the world's greenest cities in terms of urban greenery.

The Husqvarna Urban Green Space Index (HUGSI) report, which classified 155 cities in 60 countries for their green areas using computer modelling and satellite imagery, placed Krakow in 5th place with a score of 76.92%.



**KRAKOW INCLUDED IN THE RANKING OF THE 25 BEST CITIES IN THE WORLD**

Krakow once again appeared on the global ranking of places worth visiting. The city took **25<sup>th</sup>** place in the list of the Best Cities in the World compiled by the readers of Travel + Leisure magazine.

**KRAKOW TAKES 5<sup>TH</sup> PLACE IN THE „GREEN CAPITAL OF EUROPE 2022” COMPETITION**

Finalists included the cities of Tallinn, Grenoble, Dijon and Turin. A total of 18 European cities applied for the title. The cities were assessed in 12 categories: limiting climate change, adapting to climate change, sustainable mobility, sustainable land use, biodiversity, air quality, noise,

reducing waste production, water quality, eco-innovation, energy efficiency and management. **Krakow was rated highest among the cities in terms of water quality.**

## SUSTAINABLE CITY TRANSPORT

In accordance with the Transport Policy for the City of Krakow for 2016-2025, the following activities have been undertaken:



**replacement of existing rolling stock with modern, ecological rolling stock offering greater accessibility**



**investments in infrastructure**  
(e.g. the longest cycle bridge in Poland)



**launch of a reloading point for cargo bikes**

Major effects of these activities include: an annual increase in the number of passengers on public transport; an increase in the attractiveness of traveling by bicycle (especially in the winter months); public transport fleet meeting exacting exhaust emission standards (electric buses, hydrogen buses - recently tested in Krakow).



## KRAKOW IN THE TIMES OF THE COVID-19 PANDEMIC

Research from the Małopolska Tourist Organization shows that 7.95 million people visited Krakow in 2020, a significant decrease on 2019, when 14 million visitors came to the capital of Małopolska.

However, despite the pandemic, or perhaps „thanks to it”, numerous interesting initiatives have been created in Krakow:

**Be a tourist in your city - visit Krakow!** - is a campaign addressed mainly to the local community, with the aim of stimulating the economy and engaging the inhabitants of Krakow in the process of restoring the city to the position of tourist capital of Poland.

**Play Kraków** - the only VOD platform in Poland entirely devoted to urban culture. Without leaving home, it will permit attendance at concerts, meetings and recitals.

**Arena Garden** - is a project of a free urban space in the Tauron Arena and Park Lotników. As part of the project, a zone of relaxation, entertainment, culture and sport for both children and adults was created in the open air.

**Map services for entrepreneurs** - Kraków has launched a package of websites that allow residents to use the range of services of local entrepreneurs and producers during the pandemic. This is an important initiative for building local economic patriotism and a significant venture at a time when most service and food establishments remain closed. The websites currently in operation are [www.jestemaktywny.krakow.pl](http://www.jestemaktywny.krakow.pl) and [www.jedzenie.krakow.pl](http://www.jedzenie.krakow.pl). The website [www.rynek.krakow.pl](http://www.rynek.krakow.pl) operates during the holiday season.

## KRAKOW AIRPORT 2020

2020 also turned out to be difficult for the aviation industry. The Kraków/Balice Airport handled 2,592,972 passengers in 2020, i.e. 69% less than in 2019. These data show the enormous losses of both the tourism and aviation industries. Despite the difficulties experienced over this period, the airport not only did not reduce the quality of service, but also increased its level of security, ensuring travellers high sanitary standards. As a result of these activities, **the Kraków/Balice airport was the first in Poland to receive a unique award in the Best Airport by Size and Region category (for an**

**European airport serving up to 15 million passengers annually) by the Airports Council International.**

Airport Service Quality Awards - this award is granted to the best airports in the world and is based on passenger assessments. The Airport Service Quality Programme is the world's leading traveller satisfaction measurement programme for quality and standards of service at airports. ASQ measures passenger satisfaction against 34 KPIs that allow for a comprehensive assessment of the level of service provided on the departing and arriving passenger path.

# Your new horizon



There is where I want to  
live, work, invest



The world was not prepared for the epidemic that we've been facing recently; nor was it prepared for the effects, which will continue to be felt for some time to come. Strong and mature economic ecosystems, however, should not only survive, but should also emerge from such situations unscathed, more resilient, and prepared for what the future holds. Krakow is one such urban ecosystem.

The economic potential of Krakow lies in a coherent, clear, focussed investment and promotion policy, implemented at all levels of government. It is a policy which works across the city and across sectors, utilising well-directed instruments and tools. Krakow benefits from a development vision of a city attractive to investors seeking new opportunities for companies, industries, technologies, work organization, and approach to recipients and beneficiaries. The economic potential of a city or region is presented not only by hard indicators, but perhaps even more so by its specific, unique investment climate. For Krakow, confirmation of such a climate can be seen in a systematically developing business services sector (BSS). Both companies already present in the city and those considering Krakow as a location, are guided by hard mathematics and numbers. It is, however, significant that Krakow guarantees them not only the availability of a qualified, appropriately educated workforce (23 universities, 130,000 students, 35,000 graduates) and top-quality office space (1.5 million m<sup>2</sup>), but also a positive perception and image of the city. Krakow is one of 12 cities

in the world placed on the 1st UNESCO World Heritage List in 1978. It was also the European Capital of Culture 2000, and is a UNESCO City of Literature, a member of the UNESCO Creative Cities Network, the Cultural Capital of Poland and, finally, the 2019 European Capital of Gastronomy Culture.

The business services sector both in Poland and Krakow has been continuously developing, despite the challenges posed by the COVID-19 pandemic. This is confirmed by the increase in the number of employees in the BSS sector in Poland - from 307,000 in Q1 2019 to 338,000 in Q1 2020. Some 60% of the employment growth was registered in the three largest BSS centres in Poland, i.e. Krakow, Warsaw and Wroctaw. In 2020, employment increased by a further 10%, and the optimistic forecasts for the first quarter of 2021 indicate a further growth in employment to 363,000. This data proves that BSS remains a key branch of the economy in Poland in terms of employment, with Krakow remaining a leader in attracting such types of investment. Currently, 234 centres with nearly 78,000 employees are operating in the shared services sector in Krakow, accounting for some 23% of the total number of employees in this sector in Poland.

A city is a system of connected entities and each individual entity does not function in independent isolation. The office real estate market is an

industry which is directly related to the business services sector - one which was also impacted by the COVID-19 pandemic. In 2020, however, the modern office stock in Krakow increased despite the ongoing pandemic. Although the growth was less than in previous years, the office stock had already exceeded 1.5 million m<sup>2</sup>. Another 270,000 m<sup>2</sup> remains under construction. New deliveries in 2020 included, among others: Tertium Business Park II at Lublańska St., Wadowicka 3 building B, and the headquarters of the LPP clothing company at Bagrowa St. Among the largest investments currently under construction are: the further stages of the Fabryczna Office Park complex at Pokoju Ave., Unity Center (former „Szkieletor / Skeleton”), Ocean Office Park at Kuklińskiego St., High5ive 3 at Pawia St., Podium Park at Jana Pawła II Ave. and The Park at Saska St. Although experts from the office market agree that the real impact of the pandemic on the office sector will become visible in the coming months, the number of new offices is still growing.

The new mode of working - remote working - turned out to be a fitting solution to the difficult times of the pandemic. The question remains, however, whether this solution, and the great changes it brings to conventional work models, will work and prove useful and effective in the long term. Working from home is currently the everyday norm for many office workers, and its advantages have been noted by both employees and employers alike - the former in the shape of time savings; the latter in the form of reduced costs. After months of forced home-office,

however, both employees and management are becoming increasingly frustrated, and the lack of interpersonal contacts is starting to weigh on everyone. According to research conducted for the purposes of the „Polish business in a pandemic situation” report, prepared by management experts from the Kozminski University, remote work in the long run will bring more harm than good. The surveyed companies indicated that project supervision and management have become very complicated, while employees report that working from home has become boring and demotivating [according to the portal: [www.money.pl](http://www.money.pl)]. It would therefore seem that one solution to this challenge is to develop a hybrid form of work that will maintain direct contact between employees in a common workspace and, therefore, satisfy both parties.

The pandemic has had a huge impact on the Polish economy, which fell into recession for the first time since the transformation. It is, however, already known that coherent pro-investment and promotion policies, focussing on infrastructure investments, along with concern for the well-being of its inhabitants, will allow Krakow to come through this difficult situation without too much damage. Forecasts of the European Commission show that Poland will be one of three among the EU27 countries with the lowest decline in GDP and, furthermore, it will suffer the smallest increase in unemployment rate. It therefore seems that the situation in the Polish economy, and therefore in Krakow, should return to a stable path of development sooner rather than later.

# Office market in Krakow



Krakow continues to be the strongest, most dynamically developing regional market in Poland. Faced with the ongoing pandemic, tenant interest in Krakow's office market weakened, due to significant restrictions in economic activity, general economic uncertainty and the resultant economic downturn. However, despite the decrease in demand, the majority of developers have continued with their activities in the Malopolska capital. In 2020, some 140,000 sq m was delivered, with a further 280,000 sq m identified as being under construction. The combination of reduced demand and continuing developer activity means the vacancy rate showed an increase compared to the previous year.

**KRAKOW, WITH OFFICE STOCK REACHING 1.55 million sq m MAINTAINED ITS LEADING POSITION** among the regional Polish office markets. Developer activity remains stable. In 2020, some **140,000 sq m WAS DELIVERED IN 14 PROJECTS** - a level comparable to the previous year and the average annual supply for the previous five years. This result accounted for 37% of the new supply delivered in the eight biggest regional markets in Poland. The biggest completed projects in 2020 were: DOT Office L1 (Buma, 13,000 sq m), High5ive 4 (Skanska Property Poland, 23,500 sq m).

At the end of 2020, **280,000 sq m WAS IDENTIFIED AS BEING UNDER CONSTRUCTION IN KRAKOW**, of which 140,000 sq m is due to be delivered by the end of 2021. Such a high supply under construction has

been maintained since 2016, confirmation of keen developer interest in the Krakow office market. The supply under construction in Krakow accounts for 30% of the space under construction in the eight biggest regional cities. Projects planned for completion in 2021 include: The Park Cracow 1 (12,500 sq m, White Star Real Estate), Tertium Business Park B (13,400 sq m, Buma), and MK29 (11,200 sq m, Caishen Capital Group).

Between 2014 and 2019, Krakow had been breaking its own records for demand. 2020 had been expected to bring further impressive results, until the COVID-19 pandemic brought a decrease in demand in almost all Poland's regional markets. In 2020 in Krakow, 162,000 sq m was subject to lease - a significant 40% decrease on the previous year. Furthermore, it is 25% lower than the average annual take-up for the previous five years.

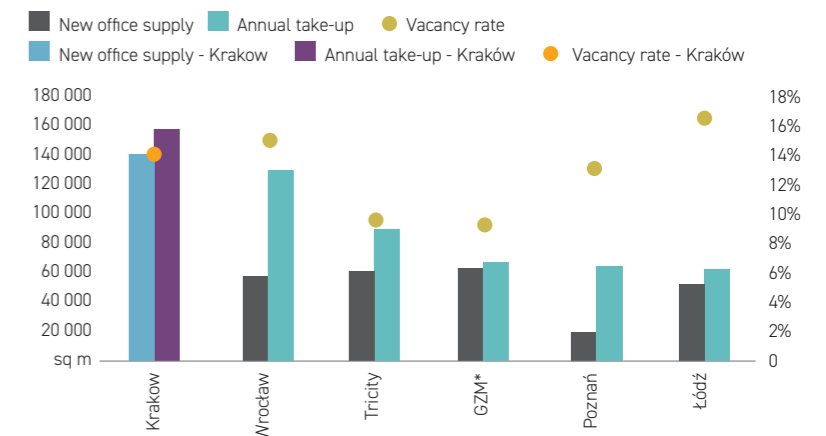
In terms of **LEASED OFFICE SPACE, KRAKOW TOOK THE LEAD AMONG THE EIGHT LARGEST REGIONAL MARKETS IN POLAND**, with the results it posted accounting for some 28% of total regional demand. Changes in the demand structure are a result of tenants putting on hold decisions concerning relocations.

While in previous years new leases dominated the take-up structure, **2020 SAW THE LARGEST SHARE BEING TAKEN BY RENEWALS** - 46% of leased office space. A further 25% of demand was in pre-let agreements, with new leases in existing buildings constituting 20% of the lease transaction volume.

Weaker demand coupled with continuous strong developer activity resulted in a vacancy rate increase up to 14%, which means that at the end of 2020 over 217,000 sq m was available for lease in Krakow. Compared to the previous quarter, Q4 2020 saw the vacancy rate increase by 1.6 pp, with a 3.3 pp increase over the year. The growth in the vacancy rate may be caused by the temporary suspension of lease decisions due to uncertainty among tenants over the COVID-19 pandemic and changing workplace strategies.

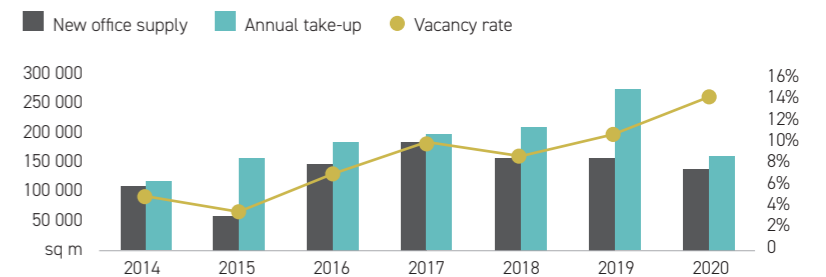
Asking rents in Krakow have remained stable despite the pandemic. **RENTAL RATES FOR A-CLASS OFFICE SPACE RANGED FROM EUR 13.5-14.5/sq m / month**, with several buildings in the city centre being quoted at EUR 16/sq m/month. Asking rents in B-class buildings ranged from EUR 11 to 13/sq m/month. Effective rents remained some 15-17% lower than asking rates.

## NEW OFFICE SUPPLY, ANNUAL TAKE-UP AND VACANCY RATES IN MAJOR REGIONAL MARKETS IN POLAND (2020)



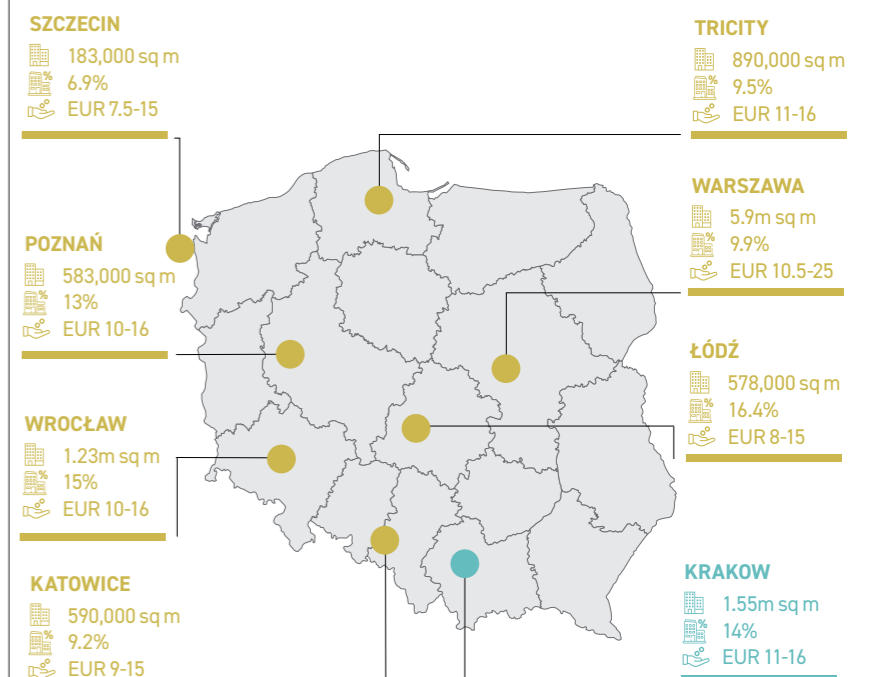
GZM - Górnośląsko-Zagłębiowska Metropolia  
Source: Knight Frank

## NEW OFFICE SUPPLY, ANNUAL TAKE-UP AND VACANCY RATE IN KRAKOW (2014-2020)



Source: Knight Frank

## MAJOR OFFICE MARKETS IN POLAND (2020)



office stock - vacancy rate - asking rents (per sq m per month)

Source: Knight Frank

# Krakow coworking space

Before the COVID-19 pandemic, remote working or hybrid working systems were considered something of a benefit for employees, rather than a standard element in workplace strategy. Recent global changes, however, have necessitated a different approach from employers, and working from home has become a fundamental element in workplace organisation. The remote working demanded of employees during the pandemic will accelerate far-reaching, long-term changes, and will inevitably bring about a more flexible work model.



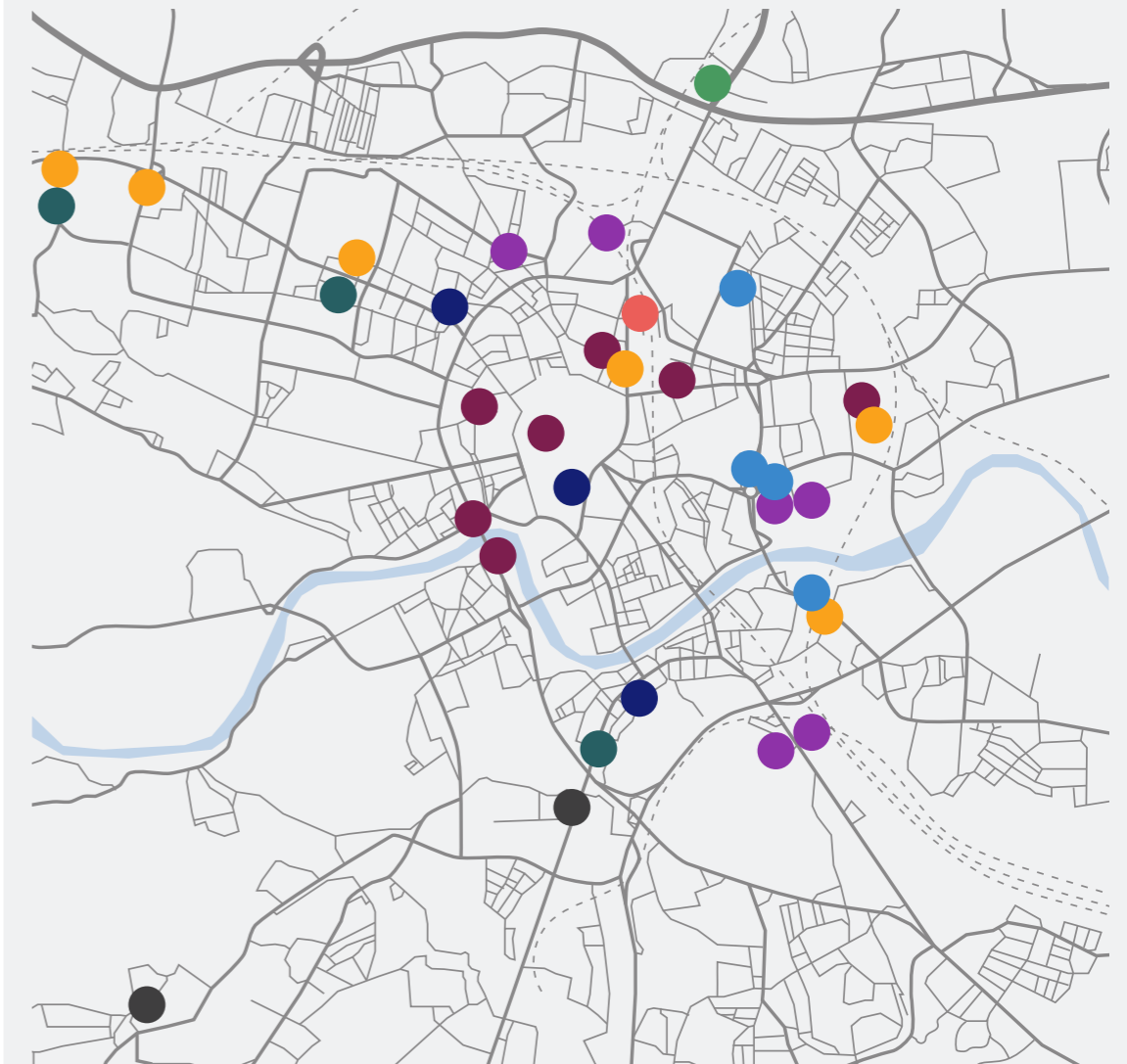
Now, however more and more tenants can appreciate the benefits of flexible lease terms and the chance to conveniently adjust to dynamic market and economic situations. Currently, **TENANTS ARE OBLIGED TO PREPARE NEW WORKPLACE STRATEGIES FOR THEIR OFFICES AND OFTEN FIND IT CHALLENGING TO EASILY EVALUATE THEIR LONG-TERM OFFICE SPACE NEEDS.** The dynamic economic conditions of the pandemic are encouraging tenants to lean towards flexible lease terms which will enable them to make appropriate agile adjustments and reactions to the changing reality. As a result, the future might well bring increased demand for flexible office space and coworking.

For the past few years, the flexible office and coworking space sector in Poland has seen rapid development. International flexible office providers had been opening new locations one after another in Warsaw and regional cities, building communities of start-ups, freelancers and small businesses. **AMONG THE REGIONAL CITIES, KRAKOW HAS THE LARGEST VOLUME OF COWORKING SPACE,**

and numerous chain operators offer their services in the Krakow's office buildings in various locations. The pandemic revealed that, as well as bringing businesses together, flexible lease terms and the possibility to quickly respond to forthcoming market changes can help companies survive in uncertain times. This is a prime reason for larger companies to consider including flexible spaces as part of a more holistic real estate strategy to cut costs, or look for satellite offices not requiring a large initial capital investment. Additionally, the new market conditions will encourage some companies to use a hybrid model, combining long-term office lease agreements with short-term leases.

Krakow, as the most developed regional office market, follows the market trends and changing tenants' expectations, adjusting the offer including flexible office space accordingly. **THANKS TO THE DEVELOPED COWORKING SPACE OFFER, KRAKOW MAY BE AN ATTRACTIVE LOCATION FOR TENANTS LOOKING FOR FLEXIBLE SOLUTIONS.**

## SELECTED COWORKING OPERATORS IN KRAKOW





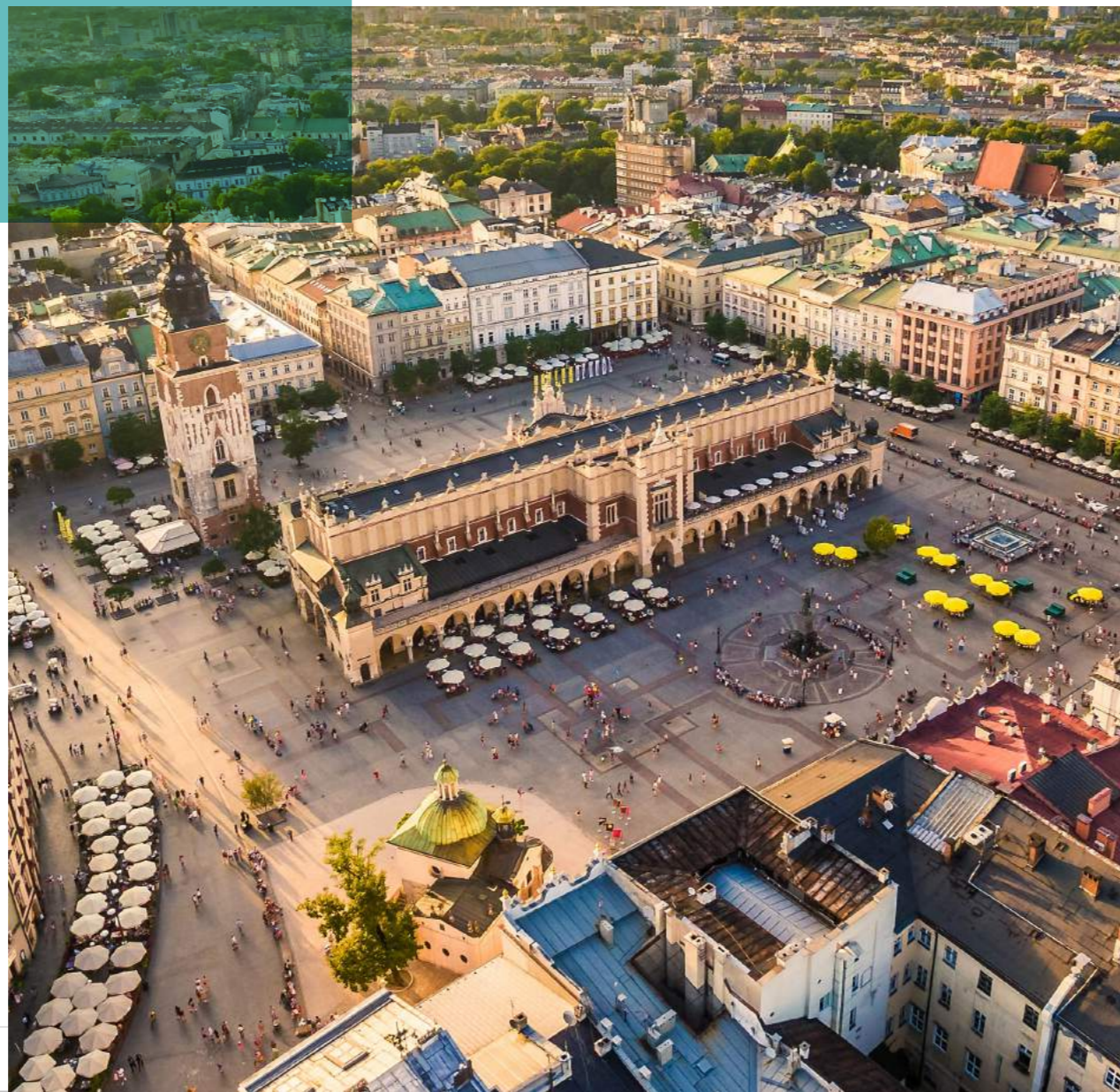
# Retail market in Krakow

Due to the COVID-19 pandemic, the Krakow retail market, as with retail markets of other Polish cities, faced a number of challenges in 2020. Restrictions introduced by the government to combat the pandemic resulted in a decrease in shopping centre footfall and tenant turnover. As a result, August 2020 saw the vacancy rate increase in some shopping centres in Krakow.

In 2020, no new retail facility was opened. Thus, **THE KRAKOW AGGLOMERATION REMAINED SIXTH IN TERMS OF RETAIL STOCK AMONG THE 8 LARGEST POLISH AGGLOMERATIONS**, with an offer over 590,000 sq m of space in shopping centres, retail parks and outlets located in Krakow, Myślenice and Modlniczka.

The low developer activity in Krakow reflects a trend prevalent in the largest Polish cities. In 2020, the supply delivered in the 8 major agglomerations just exceeded 20% of the total annual supply.

At the end of 2020, **THERE WAS ONLY ONE RETAIL SCHEME UNDER CONSTRUCTION IN THE KRAKOW AGGLOMERATION** – Atut Bielany, with an area of 5,200 sq m. The opening of the retail park is scheduled for Q1 2021. It is worth emphasizing that, at the end of 2020, facilities adhering to this format (no common areas, separate individual store entrances from the parking level) accounted for up to 40% of the newly delivered retail supply



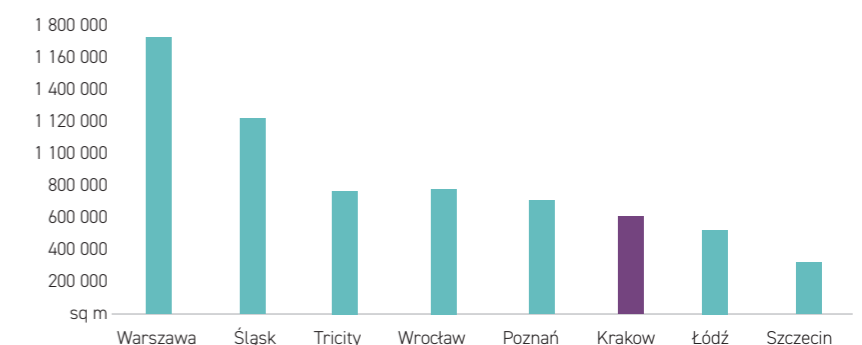
throughout Poland. The popularity of such commercial facilities among customers has been growing for several years and, in the time of the pandemic, their position has strengthened (largely due to the feeling of greater sanitary safety among buyers due to the lack of common areas). This trend has, as a result, had a positive influence on both footfall and turnover figures in such facilities.

The construction of Galeria Wieliczka (27,000 sq m), which commenced in 2019, remained suspended at the end of 2020, with the developer due to announce a new delivery date in 2021. Additionally, **THE VOLUME OF NEW SUPPLY IN THE AGGLOMERATION IS EXPECTED TO INCREASE IN THE COMING YEARS**, due to the commencement of the construction of Designer Outlet Krakow. The 21,000 sq m facility will be located at Nowohucka St. and is due for completion in 2022.

The rate of available space in shopping centres in the Krakow agglomeration at the turn of August and September 2020 stood at 5.9%, a 0.2 pp decrease over the first 9 months of the year. Although Krakow exceeded the average vacancy rate for the 8 largest agglomerations, it was one of only three cities not to record an increase in the rate of available space during this period.

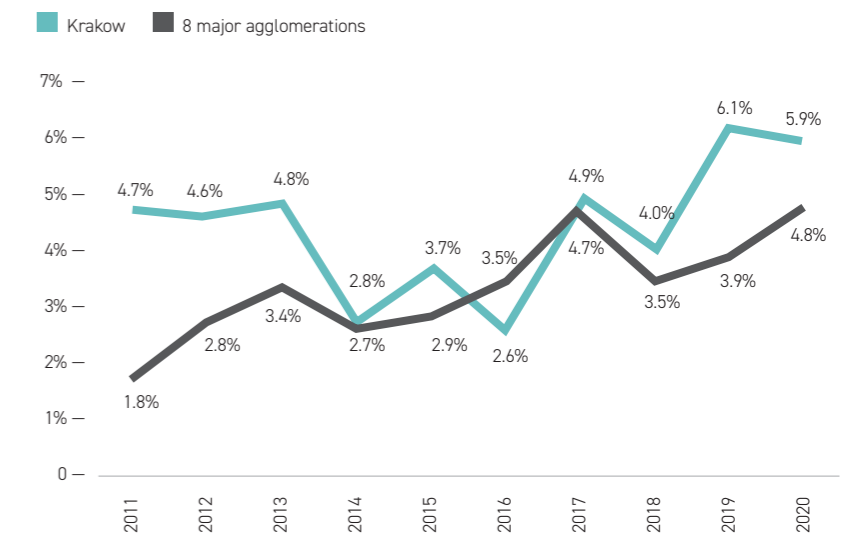
Monthly rents for the most attractive premises (up to 100 sq m for the fashion sector) in prime shopping centres in Krakow range between **EUR 35 and 70 per sq m** and are comparable to other major agglomerations (with the exception of Warsaw). Rents are principally dictated by the tenant's brand, the size of the premises, the location within a given facility, and the owner's rental policy.

MODERN RETAIL STOCK IN THE 8 MAJOR AGGLOMERATIONS IN POLAND



Source: Knight Frank

VACANCY RATE IN THE KRAKÓW AGGLOMERATION (2011 - 2020)



Source: Knight Frank

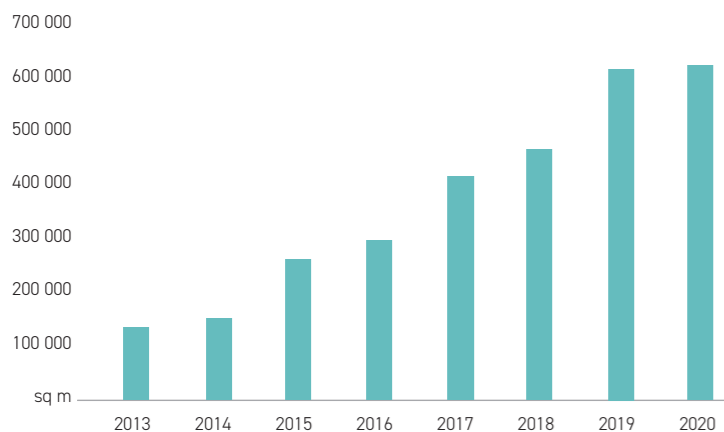
# Krakow warehouse market



The warehouse market in Krakow has been growing steadily since 2006, yet it remains one of the smallest in Poland in terms of existing supply. The region is conveniently situated close to the country's southern border, and it benefits from a constantly developing road infrastructure connecting various locations across Poland and, further afield, Europe. Krakow, however, has relatively high industrial land prices and is close to Upper Silesia, Poland's second largest industrial hub - factors which somewhat restrict the rapid development of the warehouse sector in the Malopolska area.

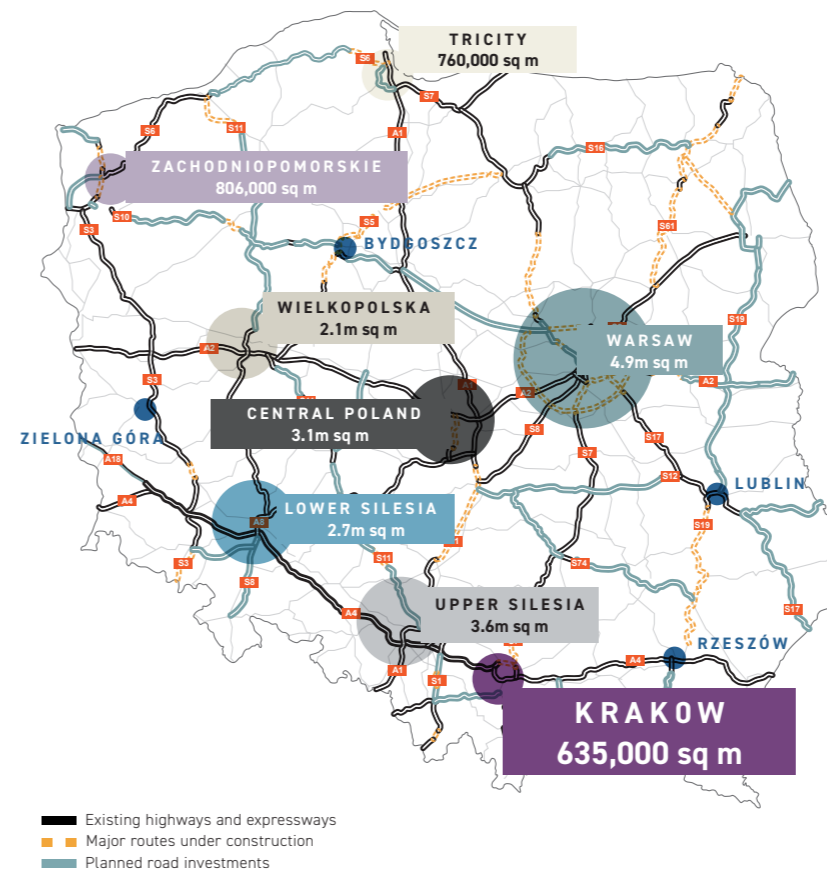
At the end of 2020, **MODERN WAREHOUSE STOCK IN KRAKOW WAS ESTIMATED AT APPROXIMATELY 635,000 sq m**. This includes facilities developed by key warehouse players such as Panattoni Europe, GLP, 7R S.A., along with those delivered by local developers such as BIK or Witek. Warehouse developments in the Krakow region are situated within the city's administrative boundaries, in the airport area, and in adjacent towns such as: Modlniczka, Skawina and Wieliczka. Areas to the east of Krakow like Nowa Huta, Targowisko, Tarnów and Brzesko, are gaining in importance, becoming new locations on the Krakow warehouse map.

WAREHOUSE STOCK IN KRAKOW (2013 - 2020)



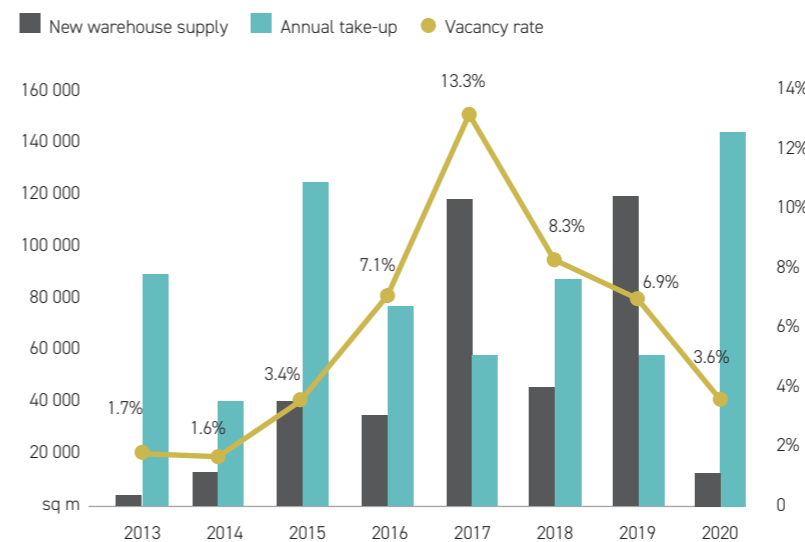
Source: Knight Frank

WAREHOUSE STOCK IN CONCENTRATION AREAS IN POLAND (2020)



Source: GDDKiA, Knight Frank

NEW WAREHOUSE SUPPLY, ANNUAL TAKE-UP, VACANCY RATE IN KRAKOW (2013 - 2020)



Source: Knight Frank

Following a record-breaking 2019 in terms of new supply, when the volume of completed space exceeded 120,000 sq m, 2020 saw the Krakow warehouse market witnessing moderate developer activity, with some 11,000 sq m delivered to the local market. The completed investment includes a project tailored to meet individual tenant needs developed by 7R S.A. for BWI Group in Balice near Krakow. In this modern, energy self-sufficient investment, the tenant has housed the company's research and development centre. The building, unique in Europe, is equipped with a technically advanced trigeneration system, thanks to which the energy needed to power, heat, cool and ventilate the facility is generated by gas turbine.

Furthermore, at the end of December 2020, **THREE FACILITIES WERE AT AN ADVANCED CONSTRUCTION STAGE - THEIR COMPLETION PROMISING TO ENLARGE THE LOCAL MARKET BY 70,000 sq m** in total, with the largest contribution from 7R Park Krakow (33,000 sq m). The first project in the Krakow area dedicated to urban warehousing are also at its construction stage, developed by Panattoni Europe (20,000 sq m). Third developed scheme on the Krakow warehouse market is constructed by GLP Krakow Airport Logistics Centre (14,000 sq m). Furthermore, there is some 200,000 sq m at an advanced planning stage - 60,000 sq of which, according to investor information, is scheduled to commence works in H1 2021.

Visible growth in tenant activity on Poland's warehouse market in 2020 for the fourth time in a row noted **RECORD-BREAKING YEARLY VOLUME OF LEASED SPACE**, which exceeded **5.2m sq m** in 2020 alone. Krakow contributed 145,000 sq m to the country total - some 3% of the warehouse transaction volume nationwide. Despite the low Krakow share in the total demand registered in Poland in 2020, the figure was a record for the local market.

High tenant interest in modern warehouse space led to a decrease in the volume of space available for lease. **THE VACANCY RATE IN THE KRAKOW AREA AT THE END OF DECEMBER 2020 DROPPED TO THE LOWEST LEVEL SINCE 2015, AND WAS ESTIMATED AT 3.6%.**

In terms of lease costs, Krakow remains the second most expensive logistics location in Poland (behind Warsaw's Zone 1). Monthly asking rents in Krakow for modern warehouse space have remained stable, ranging between **EUR 4.00 and EUR 4.5 per sq m** for facilities located within the city's administrative boundaries. Larger facilities are usually slightly cheaper and asking rents for the Krakow region were quoted at EUR 3.90-4.00 per sq m per month.

# Krakow hotel market

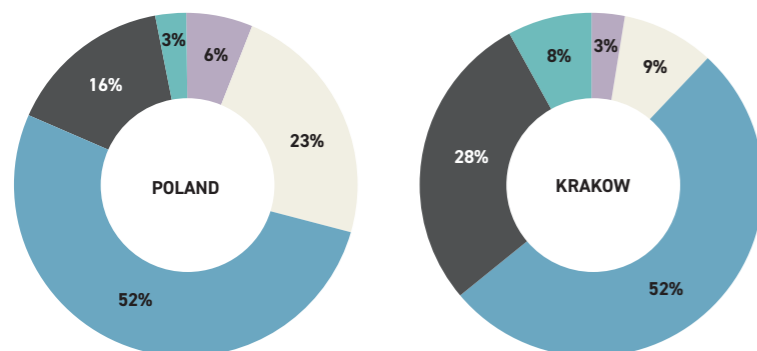


Among Polish and European tourists Krakow is considered one of the most attractive city break destinations. Each year, the capital of the Malopolska Voivodeship is visited by millions of tourists, not only from Poland and Europe, but also from various other parts of the world. Krakow is the second (after Warsaw) most important economic hub in the country, bringing together companies from the sectors of business services, new technologies, finance, IT and telecommunications. Due to these factors, the city's attractiveness has been growing year by year, translating into ever better prospects for the development of the city's hotel sector. However, as a result of the COVID-19 pandemic, the situation changed in the spring of 2020, contributing to a temporary slowdown in the growth rate of tourist traffic in Krakow.

The accessibility of Krakow, the improving communication infrastructure, and the growing number of air connections are factors that have contributed to the growing interest in Krakow among tourists in recent years. According to data from the Malopolska Tourist Organization, the number of tourists visiting Krakow in 2019 exceeded 14 million – historically, a record-breaking result for the city. In 2020, due to the COVID-19 pandemic, the number of visitors dropped below 8 million. In 2019, Krakow Balice Airport handled 8.5 million passengers, while in 2020 the number was less than 2.6 million. At the same time, aviation market analysis predicts that in 2021, due to continuing travel restrictions, the Krakow airport will handle around 4.3 million passengers. Nevertheless, investment plans for the airport's expansion in the coming years remain unchanged, and they will contribute to the further dynamic development of this region of Poland, as well as maintaining the great interest in Krakow among foreign tourists.

STRUCTURE OF THE HOTEL MARKET IN POLAND AND IN KRAKOW (2020)

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Source: Knight Frank

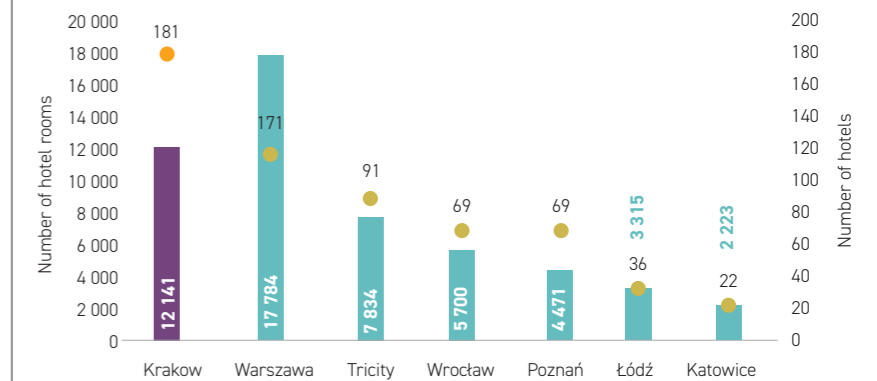
**KRAKOW INVARIABLY RANKS FIRST IN POLAND IN TERMS OF THE NUMBER OF HOTEL FACILITIES.** Based on data from the Central Register of Hotels supervised by the Ministry of Sport and Tourism, **181 HOTELS OF VARIOUS STANDARDS** (from 1 to 5 stars) were operating in Krakow in 2020. At the end of the year, the city's accommodation base consisted of 12,141 hotel rooms. During the year, 2 new hotel facilities with 108 hotel rooms were opened: the 4-star Krowodrza Conference centre and Hotel with 38 rooms (opened in Q2), and the 5-star H15 Palace with 70 rooms (opened in Q3). By way of comparison, 2019 saw 6 new hotels opening in Krakow, providing approximately 270 new rooms to the hotel market.

Compared to the largest cities in Poland, **KRAKOW IS CHARACTERISED BY A VERY WIDE RANGE OF ACCOMMODATION FACILITIES.** More than half (52%) of the hotels in the city are 3-star hotels. In terms of the number of hotel rooms, the market is dominated by rooms in 3- and 4-star facilities, accounting for 38% and 39% of the stock respectively. **KRAKOW ALSO STANDS OUT FROM OTHER POLISH CITIES AS IT HAS THE LARGEST NUMBER OF SMALL, LUXURY HOTELS.**

Due to the COVID-19 pandemic's negative impact on the tourist market, occupancy rates in 2020 decreased significantly, and Krakow, as a result of its significant focus on foreign tourists, was one of the most affected cities. According to STR Global data, in 2020 the monthly occupancy rate in Krakow averaged 20%. By way of comparison, the average monthly occupancy rate in 2020 in Poland, according to Statistics Poland data, was 28%.

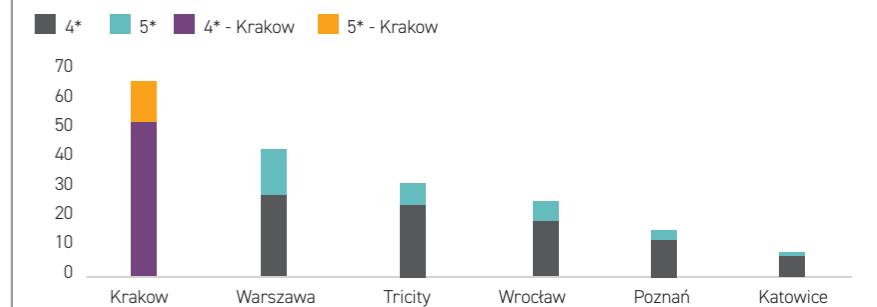
It is also worth emphasising that at the end of 2020 there were **12 HOTELS** under construction in Krakow, with a total **OF APPROX. 2,000 HOTEL ROOMS.** Moreover, investors are planning another 15 new hotel projects, whose completions are scheduled for the upcoming years. The number, scale and quality of the projects under construction and planned reflect the role Krakow plays as a business and tourist city, and they further confirm the ongoing interest of investors in the city. The facilities under construction include: 5-star Autograph Collection (125 rooms), 5-star Hyatt Place Krakow (216 rooms), 5-star Mercure Krakow Fabryczna City (200 rooms), and 4-star Radisson RED (230 rooms).

NUMBER OF HOTELS AND HOTEL ROOMS IN MAJOR POLISH CITIES (2020)



Source: Knight Frank

4-STAR AND 5-STAR HOTELS IN THE LARGEST POLISH CITIES (2020)



Source: Knight Frank

In 2021, following the example set in the holiday season of 2020, an increase in the number of tourists using hotel services is expected in the summer months. This will have a positive impact on the operating results and occupancy rates in Krakow hotels. The ongoing COVID-19 vaccination program will have a significant impact on the improvement of the situation on the hotel market – an impact which will contribute to the return of domestic and foreign tourist activity, and one that will in turn positively affect the number of visitors to Krakow.

SELECTED HOTELS UNDER CONSTRUCTION IN KRAKOW

Hotel name	Number of hotel rooms	Opening date
<b>Mercure Krakow Fabryczna City</b>	200	Q2 2021
<b>Hyatt Place Krakow</b>	216	Q3 2021
<b>Autograph Collection by Marriott</b>	125	Q3 2021
<b>ibis Styles Krakow Centrum</b>	259	Q4 2021
<b>Hampton by Hilton Krakow Airport</b>	173	Q4 2021

Source: Knight Frank

# Investment market in Poland

Despite the ongoing COVID-19 pandemic and its enormous impact on the global economy, 2020 closed with a good result - one exceeding EUR 5.3 billion. The real estate market is doing relatively well, and the appetites of investors and foreign funds remain high. Despite a 30% decline in transaction volume compared to 2019, the investment market in Poland is stable, and the value of closed transactions significantly exceeds the average for the last 10 years, which hovers around the EUR 4.2 billion mark.

Nearly 50% of invested capital in Poland in 2020 was in acquisitions in the warehouse sector, which saw record-breaking results for the year, exceeding 20m sq m of supply and nearly 4m sq m of take-up. **THE HISTORICALLY HIGH RESULTS ACHIEVED ON THE INVESTMENT MARKET IN THE INDUSTRIAL SECTOR AMOUNTED TO EUR 2.6 billion**

This reflected the reaction of investors to the development of the e-commerce market – a market made even stronger in the COVID-19 pandemic era of changing market sentiments. Investor activity in 2020 clearly reflects the decisive advantage the warehouse sector has in the commercial segment and, dependent on further pandemic restrictions, the sector may well retain its leading position on the investment market. Last year, **THE MOST SOUGHT-AFTER ASSETS WERE WAREHOUSE PORTFOLIOS** such as: Goodman's portfolio acquired by GLP; Hillwood's portfolio acquired by Rosewood; BTS projects with long term leases such as Leroy Merlin in Piątek acquired by Savills Investment Management. In 2020, the subject of investment transactions in Kraków were BTS projects, i.e. 7R Park Krakow with over 41,000 sq m occupied by Answear.com

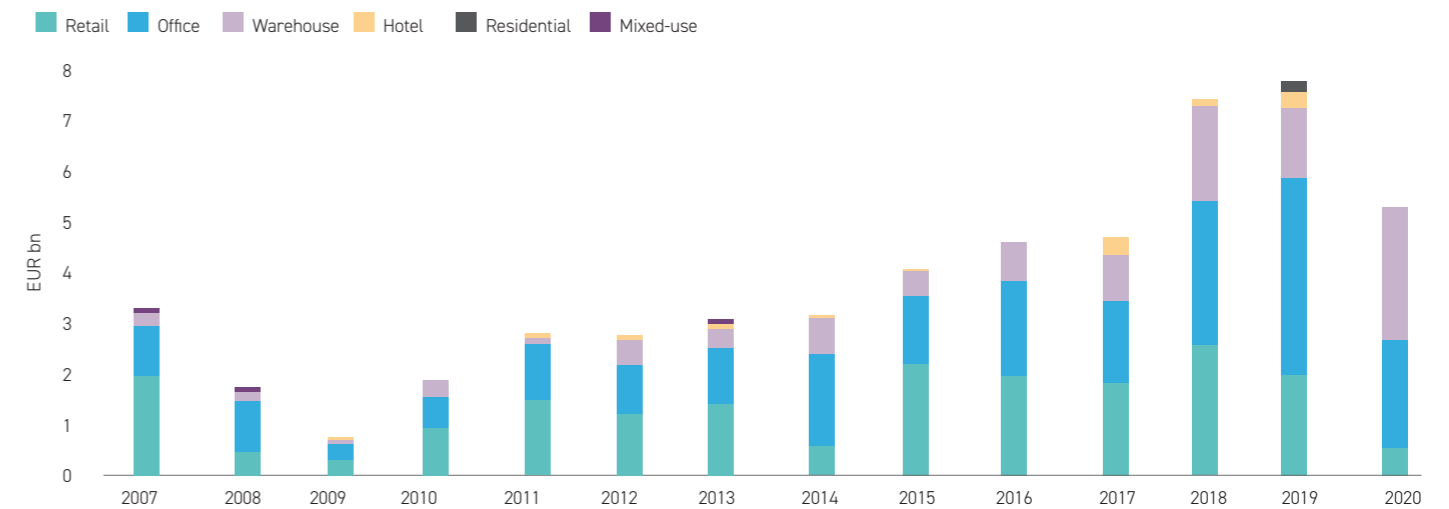


acquired by GLL and BTS MAN & Teekane offering some 10,000 sq m sold by 7R S.A.

**THE CURRENT GLOBAL ECONOMIC SITUATION CAUSED BY THE PANDEMIC HAS HAD A SIGNIFICANT IMPACT ON YIELDS.** This is evident in the changes in each sector, although impacts in the industrial sector are relatively minor. Prime big box properties are valued at 5.50%, while BTS assets with long leases are valued at 5.00%.

**THE GLOBAL PANDEMIC AND RESTRICTIONS HAVE LED TO A REDRAWING OF THE REAL ESTATE INVESTMENT MAP,** with particular reference to both the sources of

INVESTMENT TRANSACTION VOLUME BY SECTOR IN POLAND



Source: Knight Frank

capital and investor appetites for particular segments of commercial real estate. The decline in interest in office properties is a direct consequence of the COVID-19 pandemic and its creation of a climate of uncertainty regarding the changing work environment. In 2020, the volume of office transactions reached EUR 1.9 billion - 38% of the total value of real estate transactions in Poland. The sector recorded a 50% decrease in investments compared to 2019, with Warsaw remaining the office market leader, with the value of transactions reaching close to EUR 1.3 billion. The most important investment transactions in Krakow included: the acquisition of HighFive II by Credit Suisse; the acquisition of Equal Business Park A,B,C by joint venture of Ares and Apollo-Rida; and the acquisition of Podium Park II by Globalworth. Another transactions in the office sector were Diamante Plaza sold to Catalyst Capital or Astris acquired by Corum. In the office sector, prime assets located in Warsaw are currently expected to be valued at yields of around 4.75%, while prime yields for assets situated in regional cities are estimated at around 5.75%.

**2021 REMAINS A BIG UNKNOWN, ALTHOUGH IT SEEMS LIKELY THAT THE REAL ESTATE MARKET IN POLAND**

**WILL BE OF GREAT INTEREST TO FUNDS FROM EUROPE, CHINA AND SINGAPORE.** In the coming quarters, the market situation will be influenced by many factors, primarily related to the development of the global pandemic - the attendant restrictions and evolving sanitary regimes, along with the return of employees to offices, will have a significant impact on the shaping of new trends in the office market.

2020 was undoubtedly a demanding year for the retail sector, which found itself subject to the greatest number of restrictions - the multiplicity of these and the decline in the financial condition of shopping centres had a major impact on the strategies and activity of investors in the sector.

The total volume of transactions in the retail segment in 2020 was EUR 660 million, representing only 13% of all acquisitions in Poland. The most sought-after assets were retail parks and convenience centres, whose prospects remained relatively stable despite the pandemic. The coming year sees a great question mark still hanging over the retail sector - the effects of the COVID-19 restrictions may prove irreversible for many in retail, not only from an operational, but also from an investment point of view.

SELECTED INVESTMENT TRANSACTIONS IN KRAKOW (2020)

Project	Rentable space (sq m)	Price (EUR)	Seller	Purchaser
Diamante Plaza	11,000	20,000,000	Aldesa	Catalyst Capital
HighFive II	37,900	125,000,000	Skanska	Credit Suisse
Equal Business Park A,B,C	49,290	99,500,000	Cavatina	Apollo-Rida & Ares
Astris	13,500	28,800,000	Astris	Corum XL
Podium Park II	18,700	45,000,000	Podium Investment	Globalworth

Source: Knight Frank

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