

KRAKOW, POLAND

A Cracking City

Hotel Market Snapshot

October 2016



HOTELS



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HIGHLIGHTS

Often referred to as “the beating heart of Poland”, Krakow, the former royal capital, is a major economic centre home to several national and multinational corporations. The city’s rich architectural and historical heritage makes it the leading cultural city as well as the second most in-demand tourist destination in the country behind Warsaw.

Since its designation as European Capital of Culture in 2000, the city’s notoriety for leisure tourism has strongly grown, and Krakow has rapidly established itself as a **rising European destination** for weekend getaways over the past decade. In 2014, the city ranked 11th in Condé Nast Traveller’s “Top 25 cities in the World: Readers’ Choice Awards” and won the Zoover portal’s “Best European City Trip” award.

The **growing exposure and popularity** of the city for both leisure and business travellers has led us to choose Krakow as the subject of our new Hotel Market Snapshot.

WHAT’S NEW? WHAT’S COMING UP IN KRAKOW?

As a response to increasing demand, **Kraków-Balice Airport** is currently undergoing a **major investment plan** which includes an extension of the main terminal, the construction of the airport’s new railway station and the renovation of the old terminal. Upon completion, in 2017, the airport **aims to welcome close to 8.0 million passengers per annum**, a figure which is similar to the number of passenger arrivals recorded at Marseille Provence Airport in 2015 (France’s second largest city).

The two latest additions to the city’s hotel supply are the 56-room boutique **Hotel Indigo Krakow - Old Town** and the 200-room **Mercure Krakow Stare Miasto (Old Town)** which both opened their doors in September 2016. This increase in branded hotel supply is a clear illustration of the local hotel market’s growing attractiveness.

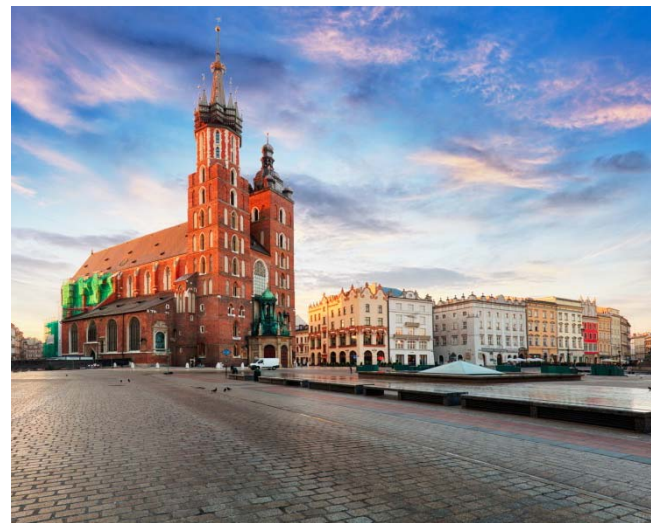
As surprising as it may appear, Krakow is home to a **renowned diving spot** which is much appreciated by local scuba diving enthusiasts. Located in a former limestone quarry, the scuba diving site of Zakrzówek, offering seemingly bottomless waters, is currently closed to the public, but plans exist to make it a real leisure attraction in the years to come.

KRAKOW - Key Facts & Figures (2015)	
Population (Inner City)	761 000
GDP per capita	€ 13 790
Unemployment	4.3%
Tourism Arrivals in Hotels	1 719 590
Overnight Stays in Hotels	3 620 837
% Leisure Tourism (Arrivals) ¹	67.0%
% Business Tourism (Arrivals) ^{1/2}	33.0%
% Domestic Tourism (Overnights)	42.0%
% International Tourism (Overnights)	58.0%
Number of Hotels	133
Number of Hotel Rooms	9 206

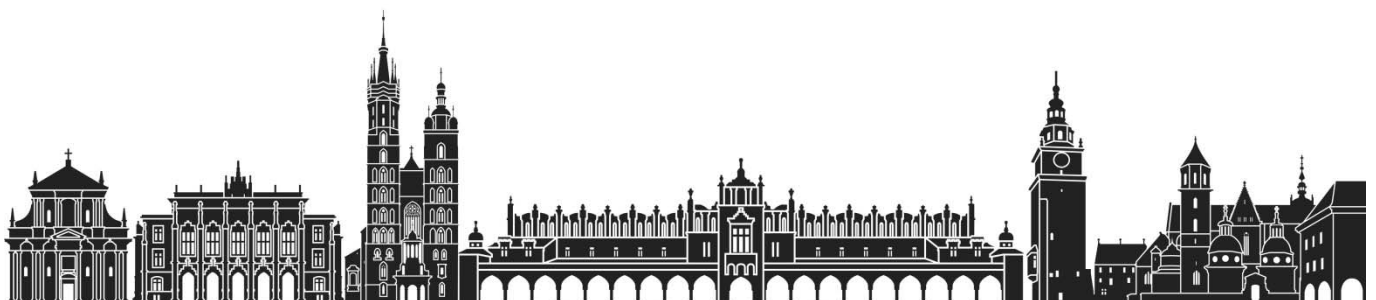
¹ Based on statistics on arrivals at Kraków-Balice Airport

² Includes 4.0% of other purposes of travel

Sources: Statistical Office in Krakow, FDI Intelligence, Krakow-Balice Airport, BNP Paribas Real Estate Hotels



Rynek Główny, Krakow's main market square (Source: © TTstudio - Fotolia.com)



Source: © Paul Rommer - Fotolia.com

ACCESSIBILITY

Located in the south-western part of the Republic of Poland, the city of Krakow benefits from a strategic geographical location close to the borders of Slovakia, the Czech Republic and Ukraine. A dynamic economic centre since the Middle Ages, Krakow is today the second most important city for business in Poland and the fourth largest manufacturing centre in the country. Conveniently located 11.0 km from the city centre, **Kraków-Balice Airport, also named John Paul II International Airport** as a tribute to the late pope, serves 62 destinations in 20 countries. As the second busiest national airport after Warsaw Chopin Airport, Kraków-Balice Airport welcomed close to 4.2 million passengers in 2015.

With the improvement of the city's airport infrastructure and the growing number of new international connections, passenger numbers have witnessed an upward trend over the past five years, recording a compound annual growth rate (CAGR) of +7.0%. Kraków-Balice Airport is particularly dependent on **international travellers who represented on average 90.6% of total traffic** between 2011 and 2015. With the city being an increasingly trendy and sought-after destination for weekend breaks and short getaways, 67.0% of total commercial passengers travelled to Krakow for leisure, while 29.0% visited the city for business and 4.0% for other purposes in 2015.

In 2015, British Airways started offering direct flights from and to London Heathrow Airport. In 2016, Kraków-Balice Airport welcomed four new carriers which will further contribute to increasing the airport's traffic - SAS Airlines, Iberia Airlines, Air France and Aegean Airlines. Meanwhile, EasyJet announced the opening of four new routes from and to Venice, Geneva, Naples and Manchester. 2016 also saw the launch of a new direct route to Seoul, South Korea operated by LOT Polish Airlines.

As a response to the increasing demand, the airport launched an **extensive investment programme** in 2013. An extension of the main terminal and the construction of the new railway station of the airport were completed in September 2015, and the old terminal building is still under renovation. Upon completion (scheduled for 2017), the airport's capacity should be brought to approximately 8.0 million passengers per year.

DEMAND

Over the last five years, Krakow recorded a **progressive increase in both its number of arrivals and overnight stays**. Indeed, arrivals grew by +41.9% from 1.2 million to 1.7 million, while overnights rose to 3.6 million in 2015, a +45.4% increase compared to 2011. However, the pace of growth appears to be slowing down slightly year on year.

The average length of stay in Krakow reached 2.11 nights in 2015, a slight increase compared to 2011 (2.06). Over the 2011-2015 period, Krakow's average length of stay remained above the national average by +0.23 nights.

Kraków-Balice Airport - Passenger traffic and origins
2011-2015 (in thousands)

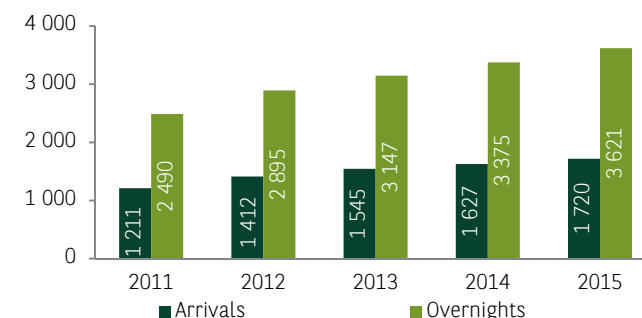


Source: Kraków-Balice Airport

In parallel, **Kraków Główny railway station**, situated within a historical building dating from 1847, reopened in February 2014 following an extensive 130.0 million PLN (approx. € 30.0 million) investment programme. Located in a prime location in the city centre, in immediate proximity to the Old Town district, it is well connected to the Polish railway network, with 12 regional, 43 intercity and 132 local trains. Also, other direct express trains run from and to major European cities such as Berlin, Vienna and Prague.

As the first city in Poland to adopt a sustainable transport policy in 1993, Krakow has a **convenient and dense public transportation network** which includes modernised tramway fleets, efficient bus lines and public bicycles to be rented across the city.

Evolution of number of tourists and overnight stays in hotels
2011-2015 (in thousands)



Source: Central Statistical Office

With 46.2% of arrivals and 39.7% of overnights being generated by domestic visitors on average over the period, Krakow's tourism industry appears as well balanced between international and domestic demand. Both domestic and international overnights witnessed strong upward trends with +61.8% and +35.5% respectively between 2011 and 2015.

The most important feeder markets in 2014 were Great Britain with a 17.1% share of foreign arrivals, followed by Germany, Spain, Italy and France with 16.5%, 10.8%, 10.2% and 7.1% respectively. Together, these five markets accounted for 61.7% of total foreign arrivals in 2014, a percentage that increased by +4.8 points compared to 2012.

Tourism in Krakow is thus generated by a diversified panel of European visitors rather than being highly dependent on one particular market.

Business Tourism

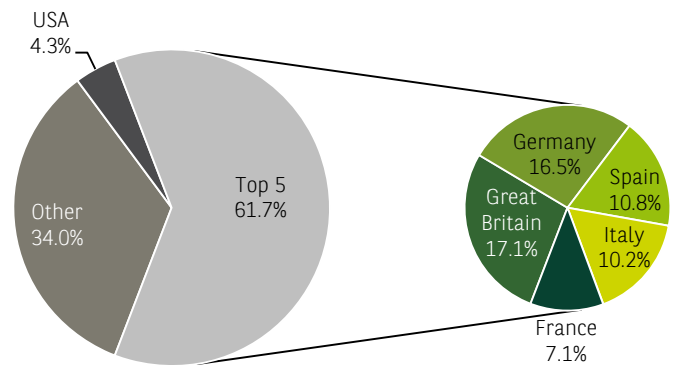
Krakow's strategic position between Germany and Ukraine, its modern infrastructure, skilled workforce and low labour costs compared to Germany or even Warsaw have enabled the city to emerge as a particularly attractive location for national and multinational companies to locate their headquarters or offices.

Krakow is also positioning itself as a leading congress and conference destination within the region and in Europe. Behind Warsaw, Krakow is the second most important city for conferences and events in Poland. While the city once counted only a limited number of venues to host events and was therefore unable to accommodate this source of demand, 2014 was marked by the openings of **three state-of-the-art facilities** with the ICE Krakow Congress Centre (with a capacity of more than 3 200 people), the Tauron Arena Krakow (with space for more than 20 000 people) and the EXPO Krakow (with 13 000 m² of usable space). In 2015, 5 200 meetings were hosted in Krakow, a +30.8% increase compared to the previous year.

Leisure Tourism

Krakow has a rich economic, cultural and architectural heritage. The city's historic centre ("Stare Miasto"), which dates back to the 13th century, was the first of fourteen sites to be inscribed on the **UNESCO World Heritage List** in Poland and offers a wide variety of tourist attractions, including the famous Rynek Główny Market Square, ten theatres, nine museums, and numerous historical buildings (comprising amongst others 140 churches).

Major international feeder markets (Arrivals) 2014



Sources: Municipality of Krakow, Krakow University of Economics



ICE Krakow (Source: © Krakow Festival Office, W.Wandzel)

While Krakow was listed as one of the ten most attractive destinations in Europe by Kongres magazine and elected "MICE Trendy Destination" by MICE & Business Travel in 2014, the city's growing reputation has allowed it to be ranked at the 26th place in the ICCA European rankings and 49th globally in 2015, gaining respectively 5 and 11 ranks compared to the previous year.

Further evidence of the town's magnificent history is provided by the remnants of the 14th century fortifications, the medieval Jewish district of Kazimierz, the Planty Park, the Jagiellonian University, the Renaissance Royal Wawel Castle and the Gothic cathedral on the Wawel Hill – the burial ground of all Polish kings, which all together contribute to Krakow's harmonious and inimitable atmosphere.

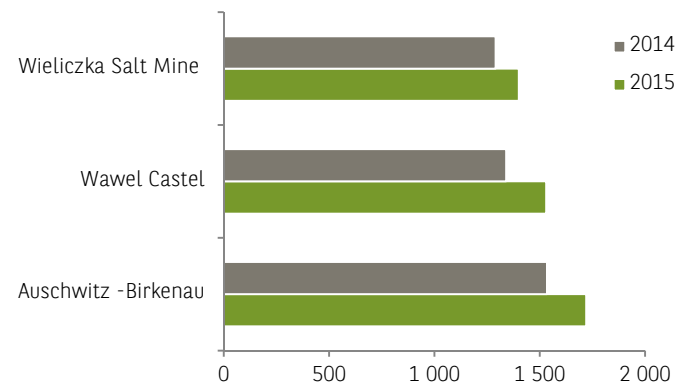


The Wawel Castel, the Auschwitz-Birkenau camp (located approximately an hour and a half away from the city centre) and the Wieliczka salt mines (half an hour from Krakow's city centre) are the most important demand generators for the leisure segment. In 2015, the total number of visitors to Krakow's top three attractions increased by +11.7% compared to 2014.

Krakow also boasts **six national parks within a 150.0 km radius**, located in the Carpathian Mountains South of the city, two of which are listed as UNESCO's World Biosphere Reserves – the Tatra National Park and Babia Gora National Park. The Ojcowski Park Narodowy, situated just 18.0 km North of Krakow, is renowned for its scenic landscape and its abundance of limestone cliffs. The city additionally offers a diverse range of nature-based activities and counts a water park, a zoo, a botanical garden, two golf courses and a renowned scuba diving spot located in an ancient quarry.

Furthermore, Krakow also hosts around 120 art and musical festivals throughout the year, including Wianki – The Fête de la Musique and St. John's fair.

Major leisure attractions and number of visitors
2014-2015 (in thousands)



Sources: Statistical Office in Krakow, BNP Paribas Real Estate Hotels

With the combined efforts of the municipality investing in modernising the city's infrastructure and the reinforced commercial and marketing efforts aimed at increasing the city's exposure and further promoting it as distinctive and vibrant leisure destination on both a national and international scale, Krakow has been successful in attracting an increasing number of visitors each year.

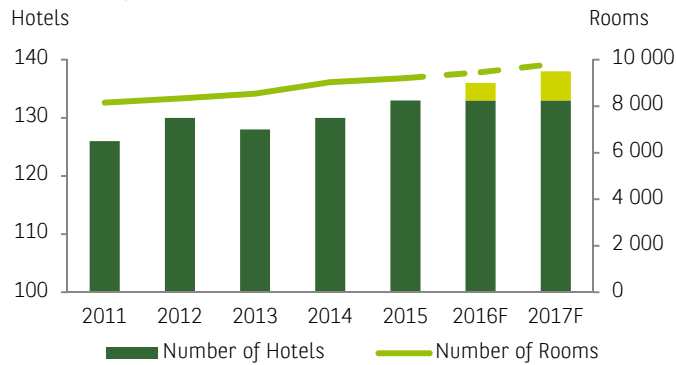


Wawel Royal Castle (Source: © igorp1976 - Fotolia.com)



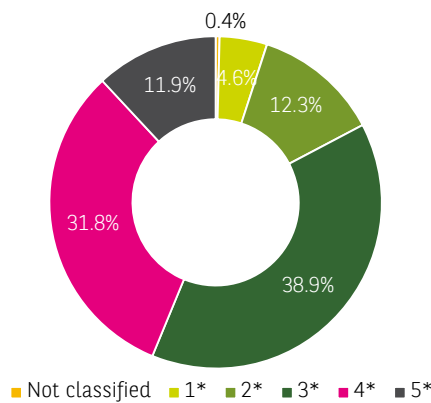
SUPPLY

Hotel supply evolution
2011-2017 forecast



Sources: Statistical Office in Krakow, BNP Paribas Real Estate Hotels

Hotel rooms per category
2015



Source: Statistical Office in Krakow

Despite limited opportunities for hotel development within the historical city centre, recent openings have mainly been concentrated in the central districts of the city and **focused on the 3-star and 4-star segments**.

Over the last three years, the only exception to these categories was the opening of the 5-star **Hotel Indigo Krakow – Old Town**, a 56-room boutique hotel operated by InterContinental Hotels Group. The latter was shortly followed by the inauguration of the 4-star, 200-room **Mercure Krakow Stare Miasto (Old Town)** managed by AccorHotels, in September 2016.

These two latest novelties in Krakow’s hotel market continue to illustrate the strong interest in the Polish city that **international hotel groups** have been demonstrating over the last three years. Amongst others, Hilton Worldwide opened three properties (548 rooms in total), while Best Western opened one property and rebranded another.

According to the Central Statistics Council of Poland, in 2015 Krakow counted **133 hotels** representing a total inventory of **9 206 rooms** (including non-rated properties).

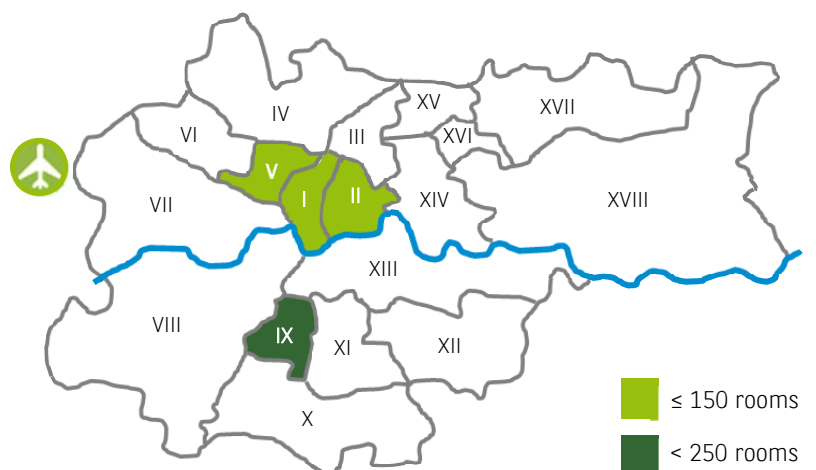
The market is dominated by 3-star hotels which represented 38.9% of the total room stock in 2015, followed closely by the 4-star category, while the 1-star segment and non-classified properties accounted together for 5.0% of the city’s total room supply.

Between 2011 and 2015, Krakow’s hotel market grew both in terms of number of hotels (+7 properties, or +5.6%) and room supply (+1 049 units, or +12.9%). The total number of hotels (including the non-rated properties) increased over the period at a CAGR of +1.4%, while the total room supply rose at a CAGR of +3.1%, revealing an increasing average capacity per property. With the exception of the 1-star category which saw its number of hotels double with only 6 properties, the most significant progression over the last five years was recorded by the 4-star category (+70.6% in hotels, +81.0% in rooms).

On the other hand, the number of properties and the number of rooms of the 2-star segment fell by -39.1% and -37.1% respectively.

If 2013 and 2014 were already active years with additions of respectively +224 and +290 rooms to Krakow’s hotel market, **2015 proved to be particularly dynamic** as room supply grew by a total of +654 units, with five new openings.

Future hotel room supply by district
2017 onwards



Source: BNP Paribas Real Estate Hotels



Hotel room supply – Recent openings

2013-YTD 09/2016

Year	Category	Hotel	Rooms	District
2013	4*	PURO Kraków	138	I
2013	4*	Golden Tulip Krakow City Center Hotel	86	I
2014	4*	Hilton Garden Inn Krakow Airport	155	Airport
2014	3*	ibis Krakow Stare Miasto	135	I
2015	4*	DoubleTree by Hilton Krakow Hotel & Convention Center	232	II
2015	4*	Q Hotel Krakow, Best Western Premier Collection	154	VIII
2015	3*	Hampton by Hilton Krakow	161	II
2015	3*	Q Hotel Kraków	89	IV
2015	3*	Automobil Hotel	18	XII
2016	5*	Hotel Indigo Krakow – Old Town	56	I
2016	4*	Mercure Krakow Stare Miasto (Old Town)	200	I
Total Rooms Recently Opened			1 424	

Source: BNP Paribas Real Estate Hotels

Hotel room supply – Future openings

2017 onwards

Year	Category	Hotel	Rooms	District
2017	5*	Ferreus Hotel	71	II
2017	4*	Hotel Gromada Kraków	220	IX
2017	3*	ibis Styles Kraków	70	II
TBC	5*	H15 Hotel	71	I
TBC	4*	Best Western Balice Kraków	150	Airport
TBC	TBC	Piastowska Hotel	100	V
Total Rooms in the Pipeline			682	

Source: BNP Paribas Real Estate Hotels

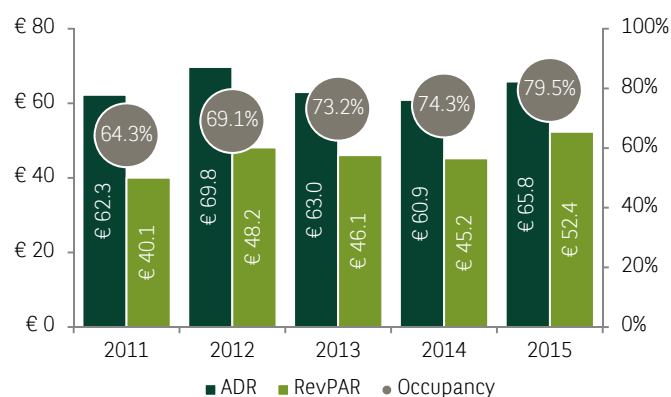


Hotel Indigo Krakow - Old Town (Source: © Hotel)

HOTEL PERFORMANCES

Hotel trading performances

2011-2015



Source: MKG Hospitality Database

It shall be noted that in local currency, hotel market performances started to show the first signs of recovery from as early as 2014.

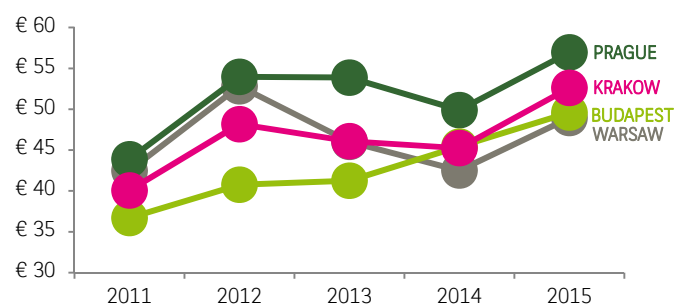
The opposite graph illustrates a comparison of Krakow's RevPAR with those recorded by three other major Eastern European destinations. Over the analysed period, Prague has undoubtedly led the pack in terms of hotel performances. While Krakow witnessed a positive trend over the last five years, Poland's capital Warsaw was unable to fully recover from its two consecutive declines in performances in 2013 and 2014. Although increasing at a slower pace between 2014 and 2015, Budapest was the only city to have recorded consistent increases in RevPAR over the period, rising by a CAGR of +7.8% over the last five years.

Between 2011 and 2015, Krakow's hotel market witnessed a **positive trend, with RevPAR performances increasing by +30.7%**.

2012 was an exceptional year in terms of ADR (+12.0%) and RevPAR (+20.2%) performances, mostly related to the UEFA EURO 2012 which took place in many major Polish cities, including Krakow. A significant drop was however recorded in 2013 when ADR decreased by -9.7%, even though RevPAR lost only -4.4% due to a +4.1 point increase in occupancy. This trend continued in 2014, with a slight improvement in occupancy (+1.1 points) protecting the RevPAR against the observed decrease in ADR (-3.3%). In 2015, Krakow's hotel market recorded outstanding performances, with a progression of +5.2 points in occupancy and +6.6% in ADR which led to a RevPAR increase of +14.1%, largely linked to the opening of three state-of-the-art MICE facilities in 2014.

Comparable key cities - RevPAR evolution

2011-2015



Source: MKG Hospitality Database

INVESTMENT MARKET

Over the last decade, the Polish hotel investment market has been characterised by relatively limited investment activity. As a matter of fact, only a few transactions were recorded in Poland up until 2006, all of which were related to the privatisation of Polish hotel operating company Orbis, which AccorHotels purchased in sections. This illiquidity was partly due to a complex legal framework regulating both corporate management and the ownership of real estate. Prior to 2006, investment activity was restricted by the limited availability of quality assets on the market, low operating margins and the lack of established tourism centres.

With strong investor appetite for commercial real estate in Poland, particularly in Warsaw and Krakow, hotel transaction volumes reached a five-year high at € 210.0 million in 2015. Hotel transactions in Poland have witnessed an **increased interest from international investors** and have been fuelled by the availability of debt and the Polish hotel market displaying strong performances.

Since 2009, Krakow recorded a few significant hotel transactions which are presented below:

Year	Cat.	Hotel	Rooms	Price (€)	Price per Room (€)	Seller	Purchaser
2009	5*	Radisson Blu Hotel, Krakow	196	32 000 000	163 300	Invesco RE	Union Investment
2009	4*	Andel's by Vienna House Cracow	159	30 000 000	188 700	Warimpex	Deka Immobilien
2011	4*	Orbis Francuski	42	4 630 000	110 200	Orbis	Emir 19
2011	3*	Hotel Orbis Cracovia ⁽¹⁾	314	15 000 000	47 800	Undisclosed	Echo Investment (POL)
2013	5*	Sheraton Grand Krakow	232	38 000 000	163 800	Starman Hotels	Algonquin

⁽¹⁾ Following its sale, the Hotel Orbis Cracovia was converted into an office building

Sources: BNP Paribas Real Estate Hotels, Real Capital Analytics

OUTLOOK

With a favourable economic context and an expected GDP growth of +3.4% in 2016 – well above that of the Eurozone, Poland offers a prosper environment for the development of the tourism industry.

Over the past decade, the number of visitors in Krakow has been growing substantially as the city has established itself as **a hotspot for weekend getaways and an attractive destination for congresses and conferences**. Estimates from the Krakow Tourism office for the years to come suggest that this positive trend should continue. Indeed, the number of visitors who spend at least one night in the city is expected to increase by +3.7% compared to 2015 to reach 8.5 million in 2016.

Despite a limited increase in the city's hotel supply, the past two years have seen the **development of the city's tourism infrastructure** with improvements made to the city's accessibility and MICE facilities as well as the renovation of a number of existing hotels which are expected to further reinforce Krakow's attractiveness.

Year-to-date performances also seem to indicate that Krakow's hotel market is pursuing its **growth in 2016**. Over the first six months of the year, the market recorded a +11.0% increase in RevPAR mainly led by a +9.1% improvement in ADR compared to the same period in 2015. This positive trend is essentially driven by the growing number of events taking place in Krakow such as the 2016 Men's European Handball Championship in January and the World Youth Day in July 2016.

Although the last three years have been marked by a surge in international demand which in turn triggered the interest of **international hotel groups**, further growth perspectives could be constrained due to the limited size of the market and the hotel development pipeline with respect to comparable cities such as Prague and Budapest.

Offering attractive yields, Krakow nevertheless appears as a strong alternative investment destination for both opportunistic and institutional investors wishing to acquire commercial property in Poland.



Mercure Krakow Stare Miasto (Old Town) (Source: © Hotel)





HOTELS

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Cover page: The Sukiennice building on Rynek Główny (Source: © ted007 - Fotolia.com)



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