

Case study:

Office space in Krakow

Course: Corporate Investments

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1.1 General characteristics of the investment

Investor	Private Polish Company established in 1980
Location	Kraków, Śródmieście district
Class	A
Office to let	2 020 m ² .
Available Parking Spaces	50
Floors	4
Price	PLN 52 / m ²
End of investment (selling office space)	2023 r.
Actual (2008) vacancy rate in Krakow	5 %

1.2 Financial information

Equity	7 143 000
Cash	143 000
Contribution (land)	7 000 000
Liabilities	12 000 000
Mortgage credit	12 000 000
Investment value	19 143 000
Loan rate	6,55 % (WIBOR 3M + bank margin)
Payback period	15 years

1.3 Loan repayment schedule

*only first quarter

Year	Capital	Interest	Loan payment
2008*	78 941	130 785	209 726
2009	492 127	766 230	1 258 356
2010	525 346	733 010	1 258 356
2010	560 809	697 547	1 258 356
2012	598 665	659 691	1 258 356
2013	639 076	619 280	1 258 356
2014	682 215	576 141	1 258 356
2015	728 267	530 089	1 258 356
2016	777 427	480 930	1 258 356
2017	829 905	428 451	1 258 356
2018	885 926	372 431	1 258 356
2019	945 728	312 628	1 258 356
2020	1 009 567	248 789	1 258 356
2021	1 077 715	180 641	1 258 356
2022	1 150 464	107 892	1 258 356
2023	1 017 825	30 805	1 048 630
RAZEM	12 000 003	6 875 340	18 875 340

1.4 Operating costs

Type	Costs in PLN per year	Share (%)
Administration costs	223 838	60,68%
Costs of maintenance and repairs	27 392	7,43%
Costs of civil or public law	44 442	12,05%
Other operating costs	73 195	19,84%
Total costs	368 866.92	100,00%

Other economic data concerning investments

1.5 YEAR 2013

Commercial income tax	PLN 11 987
Vacancy rate	7 %
Office space price for 1 m ²	PLN 55.70
Capital Improvement Expenditures	PLN 300 000
Costs of selling a building in 2023	5%
Annual operating expenses incurred by the tenant (when vacancy rate = 0%)	PLN 368 866.92
Discount rate and cap rate	7 %
Price for 1 parking space per month	PLN 210.20
Annual net operating income of warehouse space	PLN 23 832

1.6 YEAR 2023

Commercial income tax	PLN 208 740
Vacancy rate	7 %
Office space price for 1 m ²	PLN 61.53
Capital Improvement Expenditures	0
Costs of selling a building in 2023	5%
Annual operating expenses incurred by the tenant (when vacancy rate = 0%)	PLN 368 866.92
Discount rate and cap rate	7 %
Price for 1 parking space per month	PLN 232.19
Annual net operating income of warehouse space	PLN 26 325

!!! STUDENT TASK !!!

An investment company is preparing a business plan for office building construction in Krakow. The investment scope involves finishing the construction of the Premium Class Building (A-Class) in the center of Krakow. After a long procedure (16 months) company has obtained decision on building condition. The business plan is to be used to obtain financial support for the project. **You should make (1) SWOT analysis, (2) Scenario analysis and (3) calculate (using all necessary data from tables) cash flow in 2013 and in 2023 and calculate NPV and IRR .**

Cash Flow

No.		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
A1	Potential gross income	237899	1441669	1456086	1470647	1485353		1515209	1530361	1545664	1561121	1576732	1592500	1608425	1624509	1640754	
A2.1	Vacancy allowance	21412	90830	91738	92655	93582		95463	96418	97382	98356	99339	100333	101336	102349	103373	
A2	Effective gross income	216487	1350839	1364348	1377991	1391771		1419746	1433943	1448283	1462766	1477393	1492167	1507089	1522160	1537381	
A3.1	Operating expenses	36887	25821	25821	25821	25821		25821	25821	25821	25821	25821	25821	25821	25821	25821	
A3	Net operating income	179601	1325019	1338527	1352171	1365951		1393925	1408123	1422462	1436945	1451573	1466346	1481268	1496339	1511561	
A4.1	Capital Improvement Expenditures											300000					
A4	Property before tax cash flow	179601	1325019	1338527	1352171	1365951		1393925	1408123	1422462	1436945	1151573	1466346	1481268	1496339	1511561	
A5.1	Debt service	209726	1258356	1258356	1258356	1258356		1258356	1258356	1258356	1258356	1258356	1258356	1258356	1258356	1258356	
A5.2	Income tax	-3313	30645	39523	48853	58664		79854	91301	103366	116089	72512	143681	158646	174458	191172	
A5	Equity after tax cf	-26813	36018	40648	44961	48930		55715	58465	60740	62500	-179296	64309	64266	63525	62033	
A6.1	Investment	7143000															
A6.2	Residual value																
A6	Final CF	-7169813	36018	40648	44961	48930		55715	58465	60740	62500	-179296	64309	64266	63525	62033	

