

# Residential Market Review

commentaries and analyses by REAS



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# The Residential Market in Poland

The year 2007 has brought about significant changes on the primary residential market in Poland. The absorption rate in some Polish agglomerations has fallen down, and so has the price rise rate. However, we are witnessing a revival on smaller markets, such as Olsztyn, Rzeszów or Szczecin.



**Agnieszka Mikulska**  
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Poland, where housing deficit is estimated at circa 1.5 million units, is one of Europe's most interesting residential markets. On the markets of most Polish largest cities demand has evidently exceeded supply since 2004. Mortgage loans' availability has increased both because of exceptionally low interest rates and due to liberalization of loan granting rules at most banks. Consequently prices had risen more than two-fold over 2004 – 2006 and in the middle of 2007 they reached a level restrictive to housing availability to buyers with average and less than average incomes.

At the same time, following a period of relatively slow supply growth, the number of apartments built by developer companies has increased significantly. When analyzing the new apartments market in Poland a number of significant differences between individual cities should be remembered.

Housing development for sale still concentrates in five Polish agglomerations of the best economic conditions. In 2006 circa 25% of new developer apartments were delivered in Warsaw, and subsequent 32% were built in Krakow, Poznań, Wrocław, and the Tri-City. It may be estimated that, with projects developed within metropolitan areas but off city limits included, some two thirds of apartments and single-family houses for sale are procured in these five agglomerations and the aggregate value of these five markets amounts to over 80% of the entire domestic market. Differences in the residential building output between Warsaw and the group of remaining major cities have deepened since the end of the 1990s. While the yearly output in Warsaw reaches

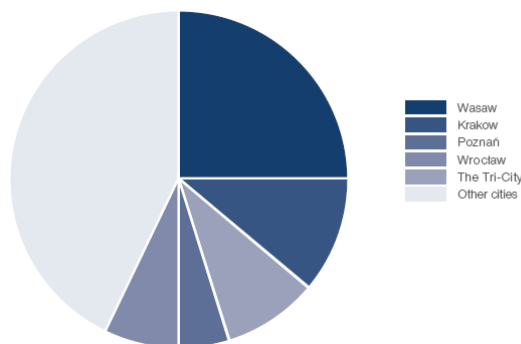
a dozen or so thousand units, 2,000 – 5,000 units are delivered yearly in Krakow, Poznań, Wrocław, or the Tri-City. In the recent years the residential construction performance in Krakow and the Tri-City exceeded that in Poznań and Wrocław. In the last two years Poland's second largest city, Łódź, begun attracting developers' interest. Although in terms of the number of apartments delivered in 2006, Łódź ranked the tenth in Poland, still because of its market's size and potential it is systematically monitored by REAS. The developer market in Poland is still very fragmented, although consolidation tendencies are evident. Definite majority of developers operate locally. Only a few developers have decided to develop projects in more than one city simultaneously, and these are first and foremost international, and publicly quoted companies.

The year 2007 has brought about obvious changes to the new apartments market. The absorption rate has fallen down, and so has the price rise rate. The rise in Warsaw and Krakow seems to have been just arrested since the middle of 2007. The 2007 price rise in Poznan is due to launching to the market of a group of projects in the high-end segment, so far nearly unknown to the local market. Still however the highest new apartment prices are asked for in Warsaw. The last year saw also revival of markets in smaller cities such as Olsztyn, Rzeszów, and Szczecin.

The disturbingly high-rate rise of construction costs experienced in 2006 has also been slowed down and in expert opinions implementation costs' growth rate should only slightly exceed inflation. Slowing down the price rise rate and uncertainty on global financial markets have resulted in declined interest of housing purchases for investment and speculation purposes. Also investment funds interested in residential development funding and apartment packages purchase now proceed with more caution.

In September 2007 asking rent rates increased a little, but rental profitability without consideration of property's future value increase still remains in the range of a few percent.

Despite high prices presale rates still remain high, not only as regards projects scheduled for completion in 2007, but also those to be finished in 2008. A phenomenon of developer's withholding of marketing of some apartments has been observed, which is sometimes combined with attempts to rise prices as project devel-



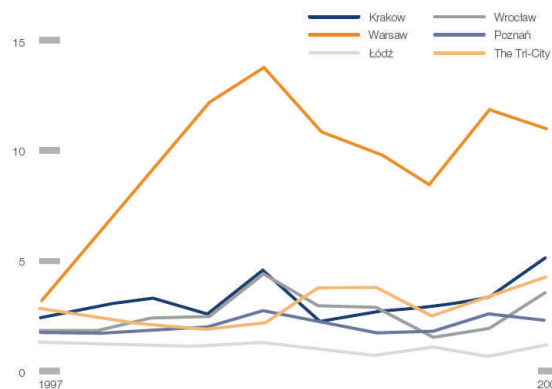
*Market share of five most active Polish agglomerations in the total output of housing cooperatives' and developers' construction in Poland in 2006*

opment progresses. Apartments for individual finishing still prevail in the market offering. As the market matures, buyers are becoming more and more demanding and its segmentation more and more obvious. Non-standard product, such as penthouses, lofts, and uniquely located apartments, is very much looked for and highly appreciated. Of principal relevance to the demand magnitude is supply of mortgage loans. In the second half of 2006 banks had slightly reduced availability of SFR-denominated loans, as well as slightly increased rates on interest accrued on loans. Further increase of the interest rates as well as margins may be expected, while the US loan market's crisis will likely inspire in Poland more caution in extending loans for speculative purchases and loans with minimum own contribution. Also more stringent requirements may be expected with respect of debtors' lending capacities. Estimates of the loan market's growth perspectives are however still optimistic.

Also amendments to taxation regulations may have some effect on the market condition. An "anti-speculation" tax has been imposed since the beginning of 2007 assessed at 19% of property value increase in the event of the property's resale within five years after its original purchase. Also the tax relief has been annulled that enabled avoiding taxation of proceeds from apartment sale that are reinvested in purchase of another apartment or construction of a house. According to expectations, albeit with a large delay, the parliament has also adopted a definition of "social building" that favorably to the industry retains the preferential 7% VAT rate on all apartments and houses smaller than 150 sqm and 300 sqm, respectively.

The present prices have reached so high ceiling that, despite aggressive promotion of mortgage loans and remuneration increases, the real affordability of housing is beginning to shrink. At the same time developers' efforts have been noticed aiming at building output's

increase, which allows forecasts of the mid-term maximum of supply in 2009 -2010. On the other hand, resulting from growing inflation, expected interest rate rises, and likely economic growth rate slowdown, the market may as well decline on demand side resulting with stabilization of prices. Diminishing investment purchases and gradual withdrawal of speculative buyers from the market should contribute to this process. If developers will manage to significantly increase supply of cheaper product located on city outskirts, it may even bring about an obvious decrease of the average price indices. The market is certainly becoming more competitive, and new projects should be planned in a way that enables flexible reaction to changing conditions. Phenomena now experienced may signify the beginning of a clear change in demand/supply relations as well as buyers' temporary "taking of a deep breath", after which, subject to auspicious economic outlook, demand will again exceed the supply.



Units built by developers or housing cooperatives in Poland's five most active agglomerations and in Łódź between 1997 and 2006 (in thousands)

In November REAS published a new edition of the **quarterly reports on residential markets in the Polish cities:** Warsaw, Krakow, Łódź, Poznań, Wrocław and the Tri-City (Gdańsk, Gdynia, Sopot). The current issue of reports includes data from the monitoring of projects implemented and planned for the third quarter of 2007. Thorough analysis and support of experts are vital especially in the current market situation, when some Polish agglomerations experiencing significant slowdown of price growth and sales rates on the primary residential market. For more information about REAS reports on residential markets of Polish cities, please contact our Marketing Department: Paulina Starzyńska, tel.: 22 380 21 04; e-mail: paulina.starzynska@reas.pl.

## Residential Market in Łódź

Until 2006 the total value of the market in Łódź had not exceeded 150 million PLN yearly. The year 2007 however will see a definite breakthrough.



**Katarzyna Kuniewicz**

Consultant

Katarzyna Kuniewicz is currently writing her doctoral thesis in the Public Finance Faculty of the Catholic University of Lublin under the supervision of professor Zyta Gilowska. Her scientific specializations are public finances and budgeting in the public finance sector.

She gained experience in the area of co-operation with the public sector as consultant in numerous programs supporting the communes in the years 2000-2005.

Population-wise Łódź is Poland's second largest city; it is also a voivodeship capital and an industrial and commercial centre of national relevance. Łódź is located in Poland's centre – at the crossing of main transit routes from Europe's west to east and from south to north. Its area is 294.4 sqkm and its population 760,300.

The economic potential of Łódź and its inhabitants is definitely behind those of other big cities. High unemployment combined with close distance to Warsaw affects significant emigration to the capital city.

Łódź seems far behind the leaders also in terms of housing construction output. In 2006 it was ranked the tenth in the country in this regard.

Łódź's housing stock relative to its population is quite large compared to other big cities and close to the "Old European Union" average. At the same time relatively large portion of the existing resources originated as early as in the XIX century and in the period of the city's pre-WWII glory, and often today is extremely run-down.

Since a few years in Łódź negative migration balance has systematically increased and negative population growth has appeared to ease the demand pressure. Yet much less apartments are still completed than marriages wed. The average 20-35 year age group's population amounts to circa 12,000, which – having established their households – encounter supply in the order of a few hundred developer apartments yearly.

They earn less in Łódź than in other big agglomerations, which results in their lower buying power. Also unemployment is rather high there. This low remuneration level is however at the same time auspicious, as it means low labor cost and hence the city's high attraction for industrial investors.

Since 2002 the ratio of average salary to average price of one square meter of new apartment has gradually decreased. Initially however these changes were rather small, and only in 2006, like in other agglomerations, also in Łódź the buyer situation significantly deteriorated. At present the average salary in Łódź can buy only 0.42 sqm of apartment floor space on the primary market.

While most of the markets in Polish big cities experience consistent growth, the housing production output in Łódź has so far remained stable at circa 1,200 apartments completed yearly. Typically not more than half of these were contributed by developers. Now Łódź sees significant increase in the developer activity. According to REAS estimates in 2007 developers and housing cooperatives will complete the record number of circa 1,330 units, and in the years to come



the supply will stabilize at over 2,000 units yearly.

There are few players at the Łódź marketplace. The top five companies that completed most apartments in 2006 contributed with nearly 50%, and the top ten with 71%, of the total developer output in that year. It is worth remembering that the market is small and any sizeable project may significantly alter its picture.

There were 886 apartments in 29 projects offered in Łódź in Q3 2007, 1% of which were premium apartments.

The year 2006 brought about in Łódź large increase in prices, by 41.3% (up to 4,118 PLN/sqm). In the first half of 2007 the average apartment price was still rising, although the vast difference between the prices of apartments new on offer and of all apartments offered observed in Q1 2007 had significantly narrowed. In Q3 2007 the average price of apartments new on offer since 2007 amounted to 5,862 PLN/sqm, while the average price of all apartments offered amounted to 5,915 PLN/sqm.

This price rate rise experienced in Łódź in 2006 had resulted from launching to the market of new type projects. This new Łódź-specific products, never before procured in such magnitude in Poland, are loft apartments (*U Scheiblera*), which are typically outside the scope of Łódź people's interest and financial capacity, and as such being obviously targeted at off-city investors. Also in the first half of 2007 evident decrease might have been noticed in the price rates of apartments new on offer, yet in Q3 2007 this trend was arrested. Even if the prices of apartments offered on the market between the quarters of the year kept rising, the prices of housing new on offer in Q3 2007 were already below the comparable prices in Q2 2007.

Until 2006 the total value of the market in Łódź had not exceeded 150 million PLN yearly. The year 2007 however will see a definite breakthrough. In this year the apartment market's value is supposed to reach circa 630 million PLN and to exceed 900 million in 2008.

# Residential towers - a new product on the Polish residential market

High-rise projects with residential functions are a relatively new phenomenon on the Polish market. Relatively high sale rate is an effect of high interest in that product.



**Katarzyna Lubaś**

Junior Consultant  
A graduate of the Maria Curie – Skłodowska University in Lublin. She also completed a post-graduate program at the Postgraduate Studies of European Project Management and European Union Law at the Lublin Development Foundation as well as the Academy of Management at the Leon Koźmiński Academy of Entrepreneurship and Management (LKAEM).

Unlike office buildings and hotels, high-rise projects (over 55 m) with residential functions are a relatively new phenomenon on the Polish market, although several single tall residential buildings were constructed in Poland in the sixties and seventies of the last century. Let us here remind three thirty-story skyscrapers in Warsaw at Ściana Wschodnia.

That type of development is characteristic for Singapore and Hong Kong to name just those two cities, where its popularity springs out from regional patterns and low supply of investment land. The issue of availability of vacant investment land has also been present in some Polish cities. Construction of tall buildings is a way to get around this issue and at the same time proves the stability and maturity of the Polish residential market. Under such circumstances, investors have more confidence in putting a new product on the market.

From the developer's perspective, the major advantage of a high-rise solution is the opportunity to place a large number of housing units on a small parcel of land. A high-rise building can house as many as 300-400 units, being therefore similar in size to a typical Warsaw housing complex. It is of huge importance in prime downtown locations in large cities, where prices get increasingly higher.

However, a high-rise project is exposed to certain risks, as construction of residential towers requires costly technologies. Furthermore, it is not possible to split up the project into phases, hence it is hardly possible to modify the structure or quality of the project in response to changing clients' expectations, unless the architectural design provided for such modification. As a result, developers have to sell over a short period of time a large number of units concentrated in one location.

Despite single projects from the recent years, high-rise residential development is still a new product. According to focus research conducted by REAS, Polish buyers have a cautious and prudent approach to this product, however they do not reject the purchase. More often than not, lack of readiness of willingness to buy ensues from lack of knowledge about the product – as evidenced by REAS research, the scale of perception of an average prospect in Warsaw reaches no higher than to 17-20 floors. Yet clients' preferences change very quickly, particularly as a result of new trends and offers on the market. Even today many buyers appreciate living in a building designed by a well-known architect, a remar-

kable design becomes more important, similarly as a cozy location and unique window sight. All this may contribute to the success of tower-type projects.

Dwellings in residential towers are usually luxury apartments with many amenities available to residents. They are developed in attractive locations and apartment on higher floors secure – especially in buildings located on a seashore – a fabulous sights. Therefore the offer is targeted to well-off people and investors intending to buy rental units.

Relatively high pace of sale is an effect of high interest in such projects, despite high price levels, from a dozen or so to tens of thousand PLN per square meter. The market is seeing a sort of fashion for such units, induced by the fact that residential towers are new and exceptional products in our cities' skyline. If in addition, like in the case of Orco Złota 44 tower, the building was designed by a famous architect, even the most expensive units will find buyers due to their uniqueness.

An area in the Warsaw district of Wola has a chance to become a place of skyscrapers concentration, as between ten and twenty high-rise projects are planned between Grzybowska, Żelazna, Towarowa and Jana Pawła II streets. Developers reveal construction of increasingly taller residential buildings, around twenty stories in height, also in Szczecin and Katowice. Here comes a question whether the slowdown of the sale rate reported on the market for several months will not discourage them from launching into some of those projects. After all, a high-rise tower, once started, cannot be phased.

The tallest building currently under construction in Poland is a 30-story Łucka City in Warsaw, 127 m in height. Soon it will be outpaced by a top-end residential building Sea Towers in Gdynia with 36 floors, with its highest point at 138 m. A 51-story residential Big Boy Building, 202 m tall is in the pipeline in Gdańsk. Sky Tower, the tallest, around 220 m, apartment building with service functions is to be developed in Wrocław. Next to it, there will be Centrum Południowe [the Southern Center] owned by a Spanish investor Grupo Prasa, containing a 32-story hotel, two 28-story and three 24-story buildings. Lower floors will accommodate retail space, restaurants and shopping galleries. Office and residential space will be located on higher floors. The project is due for completion in 2019.

# REAS News

## Already 30 employees on board for REAS

REAS team was joined by Katarzyna Klimek and Renata Wrona.

**Katarzyna Klimek** supports REAS Financial Consulting and Valuations Team, where she analyses information regarding the real estate market and housing investment projects and prepares and oversees real estate valuations.

**Renata Wrona** joined the Marketing Team. She is responsible for the promotion and sales of reports on residential markets in Polish cities and marketing services for REAS Clients.

Read more about our new employees on [REAS website](#).

## REAS sessions popular at the Barcelona Meeting Point international symposium

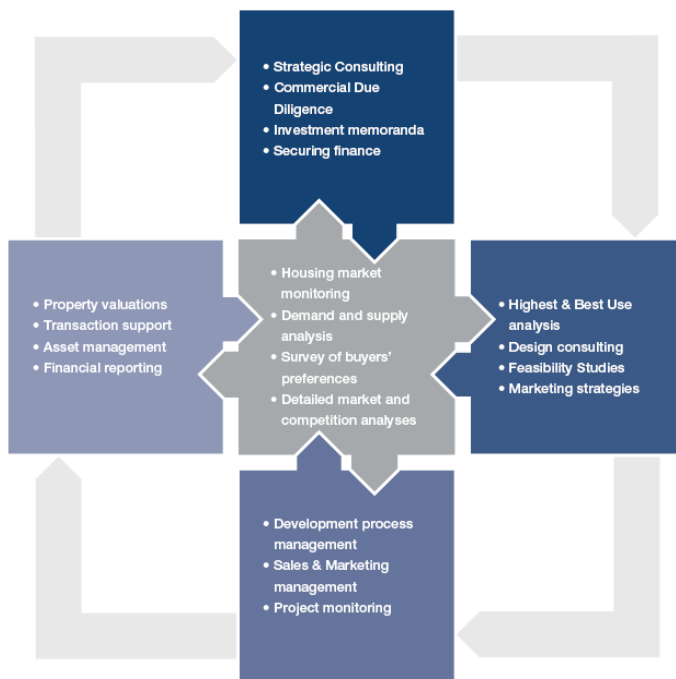
Over 100 professionals from Spain and other European countries participated in sessions about the residential markets in Central and Eastern Europe, conducted by REAS experts during the 11th edition of the Barcelona Meeting Point symposium (6-8 November 2007).

Barcelona Meeting Point is one of the most important events for the real estate sector in Europe. It comprises General Public Exhibition, Professional Exhibition and an accompanying symposium concerning the most important trends and problems of the global real estate market. The current edition of the Professional Exhibition was visited by over 22,000 people, out of which close to 2,500 took part in the symposium. The BMP program was coordinated by most important organizations in the global real estate market, whose Presidents – Bill Kistler, President of Urban Land Institute Europe (ULI), Henri Alster, President of Global Real Estate Institute (GRI) and David Tuffin, President of Royal Institution of Chartered Surveyors (RICS) - featured among the speakers at the symposium.

One of the most important subjects of the BMP symposium 2007 were the symptoms of crisis on the global real estate market and strategies available for investors in these circumstances. South American and Central and Eastern European countries were named among the most prospective regions, experiencing enhanced investor interest at the moment since their markets seem least threatened by the crisis. The organizers decided to devote four sessions to the countries of the CEE region, three out of these were conducted by REAS.

For more information about REAS presentations at the BMP 2007, visit our [website](#).

## About us reas



REAS is an expert advisor in the planning and development of housing projects in Poland.

REAS staff are the leading Polish specialists in market research, design, housing project management, project financing, marketing and sales, as well as urban and housing development. REAS partners, as advisors to the World Bank and the Government of Poland, have played an active role in Polish housing sector reforms in the early 1990's.

Since 1997, REAS has been advising developers, investment funds, banks, local governments and other institutions active on the Polish housing market. From the beginning, REAS has set the standard for investment services and is an invaluable source of comprehensive information concerning the residential market in Poland. Independence and objectivity, combined with extensive knowledge and long-term experience, allow REAS to effectively support its clients at every stage of a housing project.

REAS is strategic partner to **Jones Lang LaSalle**, the leading global real estate services provider.