

# Residential Market Review

commentaries and analyses by REAS



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# Investing on the Polish residential market in 2008



**Kazimierz Kirejczyk**  
President and co-founder of REAS

One of the the leading Polish experts on residential market. Member of the Global Real Estate Institute and Urban Land Institute; Co-founder of European Property Institute.

Over the last five years investing on the real estate market has been treated almost like playing on the stock exchange. Now investors' attitudes will have to change.

Already 2-3 years ago investment on the residential market could combine two aspects that rarely coincide in business, i.e. low-capital, short-term, and high yield-oriented investment and relatively low risk. Enormous excess of demand over supply actually minimized the danger of loss incurrence.

Now the residential market is in a state of certain suspension. The fundamental factors that affected this condition include outflow of speculative capital and unquestionable increase in supply. It may be estimated that last year building of some 190,000 flats started country-wide. Moreover a psychological factor should be taken into account: having watched the market buyers started to withhold their purchasing decisions.

Where the future of the market is not completely clear, making investment decisions, short-time investment in particular, is very hazardous. Therefore a time has come to the residential market, when investing requires some caution.

What can be therefore recommended to investors? As always, when market prices are stabilizing and even declining a little, recommendations for the whole sector become very risky. There are many indications of return of the traditional thinking about the real estate market as a sector, where as a rule investment is long-term and meant not to gain spectacular profits but to provide a relatively high chance of earning a moderate profit in a longer run. Concrete projects should be attentively watched with focus on their quality, prospects of long-term value increase, investment risk, and likeliness of development of competitive projects nearby, or occurrence of some other adverse changes. In other words – back to the basics and departure from the "hit and run" philosophy, that we have already got used to.

Worth of particular attention are governmental actions aimed at implementation of revitalization programs in degraded city centers. Revitalization projects are meant to convert such downgraded urban areas into districts harmoniously combining residential and recreational/cultural uses and providing places of work. The public sector's assistance to investment in real property in locations covered with such programs may be expected, as well as the property value's rise at a rate clearly higher than the city's average.

Another thing that may be worth thinking over is still reasonable investing in land now agricultural and as such not directly developable, which in a few year's perspective may change its legal status in terms of land use plans and – consequently – may significantly change its value.

Opportunity hunt will be left for hobbyists. There is still a demand on the market for dwelling in a small and cozy building of very good quality and high security level. This is a commodity of an objective and stable functional value, notwithstanding a stir on the residential market.



Positions of Poland's largest cities in the economic cycle

# Residential market in the Tri-City



**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. 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.

The year 2008 may prove to be another year of growth of value of residential market in the Tri-City . In 2007 it had reached 2 billion PLN

The Tri-City's relative economic standing is only moderately advantageous, whereas high-rate compensation growth at not very high unemployment together with sizeable dwelling needs indicated by the lowest housing saturation index among other agglomerations may be seen as good symptoms for the residential market's future growth.

Like in other cities, also in the Tri-City housing affordability has consistently declined. Still in 2000-2004 Tri-City inhabitants were better off in this respect than those in other big cities and their average salary could buy from 1 up to 1.08 sqm of the average priced apartment's usable floor space. Since 2005, however, this housing affordability index has greatly deteriorated. This condition improved in 2007 resulting from the average compensation's high-rate increase, which brought the housing affordability index up to 0.51 sqm of new apartment at the average asking price.

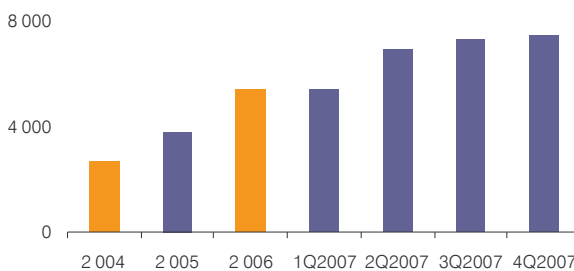
In a few year perspective the Tri-City's economic and cultural attraction and its environmental merits may increase off-Tri-City customers' demand for luxury premium apartments at the best locations. Gdańsk's Główne Miasto as well as attractive and fashionable Sopot are unique locations.

In 2006 4,790 apartments were delivered in the Tri-City. The predominant investor type are developers that in 2006 contributed 86% of the total housing construction output, whereas still seven years ago 80% of the market belonged to housing cooperatives. Most apartments are built in Gdańsk, while the scale of housing construction in Sopot is modest, mainly because of developable land deficit.

According to REAS experts' estimates developers and cooperatives had altogether completed circa 4,200 apartments in 2007, whereas in the perspective of a next few years the number of apartments launched every year to the market will increase up to over 6,000.

In the Q4 2007 study nearly 3,200 apartments were identified on offer in 124 projects. Out of these 10% were premium apartments.

Apartments new on offer in between the Q3 and Q4 2007 studies were priced at 3% higher than those new on offer in Q3 2007, reaching 7,501 PLN/sqm on average, whereas the average asking price has raised from Q3 to Q4 2007 studies by 9.6%. At the time of this study it amounted to 7,665 PLN/sqm, i.e. it was not much higher than the price of housing new on offer in the previous quarter.



Average prices of flats introduced to the Tri-City market; 2004-2007

Apartment prices in the Tri-City depend on the distance from the shoreline. Typically the further away from the sea, the lower the price. Most of the least expensive product is offered in Gdańsk's south-western regions. In Sopot only premium apartments have been offered already since 2003. A country-wide unique project is the Sea Towers residential high-rise building in Gdynia's port. The project's development is already in progress (while most of residential towers announced in other cities are still at an earlier pre-development stage).

The Tri-City market's value has been all the time consistently growing. In 2007 it had reached 2 billion PLN for the first time, nearly twice as much as a year ago. According to preliminary estimates the growth will continue also in 2008.

**New edition of REAS reports on residential markets of Poland's largest cities - 4th quarter 2007**  
 Warsaw, Krakow, Łódź, Poznań, Wrocław, Tri-City  
 Primary residential market: segmentation, prices, pre-sales, investment projects and main developers,  
 Forecasts, trends, summaries  
**If you buy the reports during pre-sales campaign, until 10 February 2008, you receive additional 5% discount**  
 contact us: paulina.starzynska@reas.pl

# Residential market in the Ukraine compared to other CEE countries



**Joanna Iwanowska**  
**Senior Consultant**  
 She was CEO and EVP of Central European Real Estate Associations Network (CEREAN) and is Vice President of the Board of the European Property Institute (EPI).

The Ukraine is drawing the interest of investors in the Central and Eastern Europe. What is worth to know before entering the Ukrainian market?

In a country so much populated as Ukraine (50 million), Poland (40 million), and Romania (20 million), housing deficit remains enormous. That's why such locations arouse interest of foreign investors who see entering such still emerging markets as an opportunity of significant gains. These projects however are neither easy nor predictable, and despite REAS' universal consulting methodology they require a fair measure of humility and profound commitment to comprehend the market's realities.

Particular attention should be paid when analyzing foreign residential markets to assessment of the apartment floor space, on which the asking price depends. In Ukraine they typically quote two quantities, first – the total floor area of a flat/house, second – the floor area of its habitable rooms exclusive of its utility areas. Once again very large diversity should be emphasized here in all three countries, where REAS currently operates. Besides, in Poland and Romania prices are typically quoted in EUR, while the Ukrainian real estate markets denominate their prices in USD.

Yet another specific feature of the market's offering is an apartment's finishing standard included in its price. The standards adopted in Ukraine differ from those in Poland, and in Romania as well. Also presale rates and financing of individual dwelling purchases are relevant. While in Poland we may enjoy 15/85% and sometimes even 10/90% offerings, they offer 25/75% financing in Romania, and in Ukraine, where the presale rates are



The Ukraine, map: [www.kiev-ukraine-information.com](http://www.kiev-ukraine-information.com)

still high, even options for apartments under building permit promises only are marketable. Unfortunately it ends up sometimes at loss of the prepaid price portion, even of as much as 100% of the apartment value. The market strives to cope with such situations, an example may be the creation for internal use of a "black list" of developers with whom a decent, usually larger, broker (realtor in Ukraine) company neither deals, nor resells their products.

The business community's large distrust of the legislation remains evident. Nevertheless the market does not tolerate a vacuum and in Ukraine surprisingly efficient organizations may be found that represent individual occupational groups, such as URA, Ukrainian Realtors Association, representing real estate agents and strongly endorsing transactional standards' implementation.

## Kiev - a city with large potential bearing a stigma of the post-socialist novostroika model

By the force of events most of activities at emerging real estate markets start from the country's capital, and this is the case also in Ukraine. Also there foreign investors start analyzing investment opportunities through the prism of Kiev's condition – and this concerns not only the real estate market.

Picturesquely located on the Dnieper River's both banks in Ukraine's tenth of twenty seven regions (oblasti), Kiev is the country's biggest city, followed by Kharkiv (1.4 million), Dnepropetrovsk (1 million), Odessa (1.0 million). The Ukrainian capital is a city of contrasts – and it is by no means a revelation – starting from the gap between the official statistics and unofficial estimates of the city's population – 2.7 and as much as 5 million, respectively. The official sources quote only

1.35 million of professionally active population. At the same time there are as many as 65 (2005) colleges and universities with half a million students, but the average remuneration is still estimated at the level of 450 USD (2006).

The housing deficit does not automatically translate into demand, and hence at high-rate growth of the residential sector the supply is significant and the prices are rising. Significant share of speculative investment purchases may contribute to price rises. And this has turned out a barrier to growth of the market in Kiev, where in March 2007 apartment prices as well as the dynamics of transactions themselves had slowed down dramatically. Also the secondary market was seriously affected.



Kiev, implemented developers' projects, phot. REAS

Yet the number of transactions on the primary residential market has remained very large for a few years, despite an evident decline in the number of delivered apartments from 2006. This urges to think over sources of individual purchase financing at the official incomes so low and at the same time the mortgage loans relatively expensive (as of Q4 2006).

The photograph shows the middle class residential building's magnitude. These are hundred of housing units in each building, and dozens or so such buildings are developed in each project.

On the other pole is dwelling in the hyper-luxury niche segment which, according to our observation, is well justified by the market's real demand only in Ukraine and Russia (and, perhaps, also in a few other countries liberated by the Soviet empire's breakup). An example may be a three-story penthouse with 990 sqm total 350 sqm and habitable floor spaces, on the sixth floor of a new house in central Kiev. The asking price of this premium apartment, very luxury finished for the Kiev standards, is 15 million USD.

Kiev has entered in the recent years agreements under the 'sister cities' program with many cities world-wide, such as Ankara, Chicago, Kishinev, Edinburgh, Kyoto, Munich, Paris, Rome, Sofia, Toronto, as well as Warsaw. One should hope that relations with more developed cities will positively affect the townscaping of Kiev, a city with enormous potential, yet unfortunately stigmatized with the post-socialist novostroika model.

## The return of the clients' market



**Paulina Starzyńska**  
Marketing Manager

She has worked for seven years in Marketing and PR in the real estate market for such clients as Ronson, Asbud and Robyg. She carries Postgraduate Professional Diploma in Marketing of the British Chartered Institute of Marketing

In view of the record breaking apartment supply in the fourth quarter of 2007 coinciding with buyers' persistent caution in making purchase decisions, developers were again forced to compete for customers.

While most of developers were willing to accept slower apartment sales, some of them decided to launch promotional offering aimed at persuading customers to speed up their purchasing decisions. Not wanting to openly cut their asking prices, the developers often offered garage spaces (20,000 – 30,000 PLN value), turnkey apartment finishing (ca.1,000 PLN/sqm), or fit-out elements such as radiators, air-conditioning, floor heating, or a plasma TV included in the apartment price.

Yet the most common promotional format was still a price discount – sometimes communicated as a temporary promotion, a clearance sale of last units, or VAT reimbursement (7% rebate). However the discount rates were significant and amounted to from 2% to as many as 20% in a Tri-City project. Probably some of these promotions resulted from financial pressure on developers, which may be evidenced by the fact that such significant rebates in the order of a few percent were granted to customers paying up-front 55%, 80% and even 100% of the price.

On the other hand also the 10/90 payment scheme has returned, so attractive to customers, whereby the down payment is only 10% of an apartment price, and the remaining 90% is paid upon the property's acceptance.

With invitation to negotiations added to the foregoing promotional formats, the promotional price cuts wave has hit from 8% of projects in Wroclaw and 10-11% in Warsaw and Krakow, up to 16% in Poznan and the Tri-City.

Since the existing offering is inadequate to the market's needs and apartments are overpriced in some segments and regions, it should be expected that in the first quarter of 2008 this wave may be gaining momentum. Already today some discounts reach 25% as special offerings for regular customers of brokerage companies.

Although temporary promotional pricing and including value adding extras in the price are marketer's standard weaponry, one should be aware that such practices may spoil the market if are excessive and inconsiderate, the same way as free of charge gadgetry has spoiled the press market. From the market perspective – of both developers and customers – it would be more advantageous to think about the target customer segment, its needs and capabilities, as well as of available alternatives, already at the product design stage.

## REAS News

### REAS is program partner of the Central European Meeting Point 2008

REAS became program partner of the 3rd edition of the Central European Meeting Point conference, which gathers representatives of most important companies from Spain and other European countries, interested in investing in residential markets in the Central and Eastern European region

This year's edition of the conference will take place in Warsaw between 22 – 24 April 2008.

### Kazimierz Kirejczyk honoured by the "Murator" monthly

On 16 January 2008, during the gala celebrating the 25th anniversary of the „Murator” monthly, Kazimierz Kirejczyk was honoured by a diploma for many years of co-operation with the monthly, sharing his knowledge and experience with the readers and his significant contribution into popularizing the rules of good construction.

Kazimierz Kirejczyk's co-operation with the „Murator” publishing house began in the 1980's. Apart from articles, it included publications from the „Murator radzi” guide series.

### New edition of REAS quarterly reports

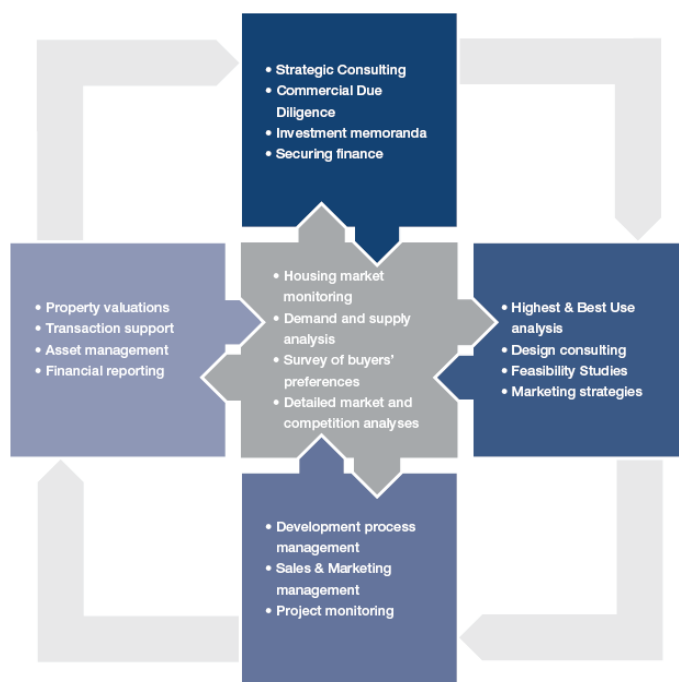
New edition of REAS reports on residential markets of the largest Polish cities, including the data from the 4 quarter of 2007, will be available on Monday, 11 February. It is already possible to familiarize yourself with the summary of the reports and submit your order. All orders submitted during the pre-sales campaign (up to 10 February) are granted a special 5% discount.

REAS reports provide a thorough analysis of the situation on residential markets in Warsaw, Krakow, Łódź, Poznań, the Tri-City and Wrocław, including the economic, demographic and urban-planning premises of their development. Supply analyses are based upon data from the monitoring of planned and realized investments conducted by REAS since 2000. Commentaries and forecasts of most knowledgeable experts on the Polish residential markets facilitate understanding of trends and assessment of attractiveness of the residential market in each city.

We encourage you to familiarize yourself with reports' summary: <http://www.reas.pl/index.php?pid=202&fileid=430>

For more information about the reports and purchase details, please visit [http://www.reas.pl/reports\\_cities.html](http://www.reas.pl/reports_cities.html)  
To receive additional information, contact Paulina Starzyńska, e-mail: [paulina.starzynska@reas.pl](mailto:paulina.starzynska@reas.pl), tel. 22 380 21 04

## About us reas



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

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.