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Residential Market Review

commentaries and analyses by REAS

Dr. Władysław Jan Brzeski (FRICS) took part in a discussion panel during the Real Vienna International Fairs (27-29.05)

Joanna Iwanowska will moderate a discussion about the residential market in Romania during the CEDER conference in Bucharest (5.06)

Paulina Starzyńska and Joanna Iwanowska will speak during the 10th Polish Real Estate Market Congress (24-25.06)

Residential Market in Wrocław

In 1st quarter 2008, average prices on the residential market in Wrocław were higher than in Warsaw. Still, over half of the offer was priced between 5,000-7,000. PLN/sqm.

Katarzyna Kuniewicz
Consultant
Katarzyna Kuniewicz is 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.

With regard to many economic ratios (such as GDP per capita, unemployment rate and remuneration level) Wrocław is ranked fourth or fifth in the group of the largest Polish cities. The city's economic development is supported by advantageous location, good accessibility and exceptionally efficient local administration. Thanks to that, the economic situation of its residents has been steadily improving. Wrocław is an attractive city for investors – direct foreign investments made in the city in 1998-2005 amounted in total to 4 billion US$.

Likewise across Poland, demand for new housing in Wrocław started to decrease in the second quarter of 2007. Third quarter sale equalled approximately 25% of the first quarter sales and at the same time the number of units exposed on the market started to grow quickly. In terms of the number of units offered for sale in 2007 (about 7,000) Wrocław achieved a very high ratio per 1,000 people, close to that of Krakow (over 11 per 1,000 people). Despite signals indicating the change in business conditions, the highest number of units for sale entered the market in the fourth quarter.

Admittedly, the number of units sold in 2007 was very high (4,100, which translated to a sale ratio equal to 6.5 per 1,000 people), but the high result was achieved mainly thanks to very good sale in the first quarter. Regardless of the above, the number of units exposed on the market in the first quarter 2008 was more than two times higher than at the beginning of 2007, reaching almost the same ratio of units exposed per 1,000 people as in Krakow.

It is reasonable to assume that it will be difficult for developers to suppress supply in 2008 as compared to the previous year. As a result, the number of units listed will continue to grow. REAS estimates based on declaration made in the first quarter 2008 denote that developers plan to complete approximately 6,000 units in Wrocław . The number of building permits rapidly grew in the last five years – in 2007 the number of units for which permits were obtained was almost 4 times higher than in 2003, reaching an exceptionally high level of 8,900 units.

Similarly as in the past, Wrocław's offering of new housing in the first quarter of 2008 concentrated in a strip from the Old Town to the southern borders of the city (Krzyki). Apart from a small cluster of a few projects in the north-east portion of the city, projects available for sale in the northern part are spread out in an large area.

Since 2005 housing prices have been growing much faster than average remuneration, but in mid 2007 signs of price stabilization occurred on the market. Survey conducted by REAS in the first quarter of 2008 identified in total 5,300 units on the Wrocław market. In the popular unit segment prices are stabilizing. In the first quarter of 2008 the average price of listed units was 6,620 PLN/sqm, while in the first quarter of the previous year it was 6,343 PLN/sqm. More than half of housing for sale is priced between 5,000 and 7,000 PLN/sqm.

The average price of apartments in the top end segment in the first quarter of 2008 was 20,000 PLN/sqm, while in the same quarter of the previous year it was 11,100 PLN/sqm. The average price rapidly boosted up between the fourth quarter of 2007 and first quarter of 2008, caused mainly by addition of one outstanding project to the Wrocław market: a Sky Tower complex with almost 840 units priced on average at almost 20,000 PLN/sqm which with 56 floors is the city's tallest building . High prices are to some extent justified by offering fully finished units. As a consequence of that boost, the average salary in the first quarter of 2008 could buy only about 0.3 sqm of unit space.

Developers on the Wrocław market will experience at least two years of struggle. Over the short-term it will be difficult for them to decelerate supply, so the number of units exposed will be growing and the number of completed unsold units will follow. It is not impossible for the market to see a slow increase of the number of units sold in sequent years, but by the end of 2009 most likely more units will enter the market than be sold. It can be estimated that on the turn of 2009 and 2010 the market will get stronger thanks to greater demand generated by people buying units for their own use and for rent.

Boom - and What Next? Residential Market in Bulgaria

In the year 2007, average prices of new apartments in Sofia grew by almost 45%. However, short-term returns on that level seem to be the past.

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).

Bulgaria is an emerging market with a high rate of economic development and an attractive country in terms of diversified investment opportunities. In many respects it resembles neighboring Romania, therefore both countries are every so often looked at jointly. Foreign investors are drawn to new EU member states by convenient location, proximity and ease of access to eastern and southern European markets as well as Turkey. Undoubtedly, both countries have a great development potential and enjoy inexpensive and skilled workforce. Furthermore, incentives in form of low tax rates are of considerable importance.

What is also important, in particular from the viewpoint of residential investors, are similarities in the urban structures of those two countries. In Romania, only Bucharest has a population of ca. 2 million people, the next largest cities have population of around 340,000. Likewise, the capital of Bulgaria, Sofia, is inhabited by 1.2 million people while the three next largest cities are Plovdiv (330,000), Varna (320,000) and Burgas (195,000). It translates into a specific distribution of real estate investment in the whole country. In both countries, the capital city is a natural starting point of any investment activity.

Let us take a look at the investment potential of the residential market in the capital of Bulgaria, Sofia, compared against other cities of Central and Eastern Europe.

In the group of twelve Central European capital compared in the REAS and JLL report „Residential Markets in Central European Capitals", in 2007 the highest increases, reaching almost 45%, were reported in the capital of Bulgaria. The potential of local demand is evidenced by the fact that in 2006 as much as 27% of Sofia's population were in the age of 20-34 (it was the highest ratio in the sample of capitals under discussion), a typical age when people form new households. Based on the housing saturation ratio we may estimate that their housing needs are not satisfied. There are 424 units per 1,000 people living in Sofia. Compared to the benchmark of 490 units per 1,000 people in 15 countries of the old EU, a clear housing deficit becomes visible. It can be estimated at approximately 82,000 units in Bulgaria's capital itself. From the perspective of the requirements of the housing market, the most quickly selling projects should be those from lower residential market segments.

However, in the light of rocketing prices of investment land within the cities limits and in their vicinity, current prices are within the reach of people with income much above the official nationwide average. In 2007 the average monthly salary could buy as little as 0.2 sqm of a unit on the primary residential market in the capital of Bulgaria. Production output is relatively low – the actual number of units delivered to the Sofia market in 2007 is around 1,600. The market is also rather confined: in 2007 housing units for sale were priced from 800 to 2,800 EUR per sqm, whereas, for instance in Warsaw, the price range was from 1,300 to 7,500 EUR per sqm.

Gross prices of apartments on primary residential markets of 12 Central European capitals (EUR/sqm) 2007; source: REAS, JLL

Sofia is not the only destination for those interested in residential investments in Bulgaria. Many investors buy for speculation or rental purposes units located in towns over the sea. Currently, the net price of an 'luxury apartment' on the Black Sea is at the level of 1,200-1,500 EUR/sqm or higher. The Black Sea coast (much more attractive in Bulgaria than in Romania) is the main tourist destination, but spa centers and mountain resorts gain more popularity every year. It is also worthwhile to mention projects tempting buyers by their proximity to golf courses. Local real estate market experts draw an advantageous vision for the buyers that projects in such locations can appreciate in value even 100% within 4-5 years. However there are serious signals that at the current stage such optimism is not realistic. When discussing an ample investment offer in the segment of recreation and holiday houses in Bulgaria, it should be considered against not only the dynamically growing number of foreign tourists coming to that country, but first of all against the needs and financial abilities of its residents.

Reducing investment risk and simultaneous maximization of return on equity are the leading goals of foreign investors on the Bulgarian real estate market – regardless of the length of the holding period. On the other hand, highly profitable short-term deals on that market seem to belong to the past.

It should be borne in mind that there is no one proven concept for effective investing – the success depends on multiple factors and requires analysis of many indicators. The fact that Bulgaria's rating provided by international agencies has changed as many as 25 times since 2000 corroborates that the situation is far from being clear. The following factors contribute to higher investment risk in Bulgaria: relatively small size of the country, lack of strong second tier cities, almost overheated market of vacation homes in holiday resorts at the Black Sea and business standards still lagging far behind those existing in older EU countries.

We may attempt to forecast that like it was the case in Spain, Ireland and Poland, also in Bulgaria property prices will be on the rise in the years to come. It is also supported by the EU membership. However, given a concurrent rise of construction costs and increasing supply of new residential, office and retail projects – profits will inevitably shrink. The future development of the investment market will largely depend on the government attitude towards necessary reforms.

Prepared based on the following sources: InvestBulgaria Agency, Industry Watch, Ministry of Regional Development and Public Works of the Republic of Bulgaria, BP Connections Ltd., www.finanse-gospodarka.pl in-house studies of REAS and JLL.

Reaching the Client - Identification of Target Groups

Competition on the residential market in Poland increases. Today, the key in marketing residential projects is to direct the offer to appropriate target groups.

Paulina Starzyńska
Marketing Manager
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She carries Postgraduate Professional Diploma in Marketing of the British Chartered Institute of Marketing

Today, when the success of a residential projects depends more than ever before on how well it fits in with market expectations and on effective communications, the key issue is excellent understanding of potential clients – their abilities, needs and aspirations with regard to their home, as well as their lifestyle and beliefs. The basis for identification and defining target buyers for a residential project is such segmentation of clients that reflects actual circumstances.

Conventional marketing splits up clients into segments with regard to their place of living (geographical segmentation), income and social status (social and economic segmentation) and demographic variables like age, sex, marital and family status (demographic segmentation). Contemporary marketers believe that another effective segmentation is that based on psychographic variables and behavioral patterns, taking into consideration lifestyle, consumption behavior, beliefs and interests.

We can apply any type of segmentation for a specific housing project, or – most frequently – a combination of them, that will allow to identify the target group as precisely as possible.

In most cases, it is the location of the project that narrows the target group to people living in proximity to that location. With the exception of investment purchases and second homes, the product is usually targeted to people living or planning to live in a particular agglomeration. Since homebuyers tend to prefer housing in the same district or part of the city where they have been living so far, sometimes marketing communications may concentrate on people living in particular districts.

The basic division of products offered on the market – standard units and up-standard units – uses an income and wealth based segmentation. However, buyers' expectations in different income brackets are very much diversified and driven by their family status, professional situation and lifestyle. Therefore, other segmentation methods gain more relevance as the market matures.

Until recently, the Poles (like people in other Central European countries) moved very rarely and spend majority of their adult life in the same home. Nowadays, they are increasingly often ready to move when their housing needs or financial abilities change, therefore segmentation based on family lifecycle and lifestyles becomes more relevant. In general, it can be assumed that young people with no children prefer units, located close to the downtown, even smaller ones and of lower quality. What becomes important once they start families, is the size of the unit, green areas and open space in the neighborhood at the cost of the distance to the center and work. When grown-up children leave a household, their choice follows their preferences – some will choose closeness to nature, some to the city.

Thus the segmentation of homebuyers can be very complex. Before we carry out the segmentation and identify characteristic features of target clients for our projects on our own, let us take the opportunity to look at predefined segmentation models which may inspire us and serve as a basis for further considerations.

The Urban Land Institute adopted a traditional household segmentation based on family lifecycle to the needs of a housing market. Homebuyers were divided into 14 basic and 5 special segments.

The basic segments are related to different phases in the family lifecycle – from Young Singles, through Young Married Couples with Child, Established Families, Empty Nesters to Passive Retirees, with separate categories given to the Divorcees, Single Female with Child and Luxury Families. For each of these groups, they defined wealth/income status, spare time spending patterns and general expectations regarding the home (among other factors, number and size of bedrooms, structure of common areas, standard of finish). ULI categorizes also some special groups of buyers – for instance Second Home Buyers, Investors, Aesthetics and Glitz – whose special wants are more decisive for the purchase than their family situation. (Please note, a person may belong to the Move-down Family segment when it buys a unit for its own use and to the Investor segment when it buys an investment unit).

The segmentation proposed by ULI provides a rather generic, but accurate definition of homebuyers' needs at different stages of their life. However, it should be borne in mind that it was developed for the North American society – with culture and wealth levels different to those in a Central European society and using different spatial standards (both in terms of home sizes and distance to social and business life centers). Its application on Central European markets – with the same segments – would call for modification of segment definitions as well as definition of needs and expectation regarding the unit.

From a Polish perspective, an interesting source may be a Personicx segmentation system of Polish households developed by a research organization Axciom. They divided all Poles into 40 different segments defined by three main dimensions: urbanization of the place of living (agglomerations, cities, small towns, villages), phase in the family lifecycle (beginners, first child, teenagers at home, families with no children, mature age, retired) and wealth (four levels). For each of these groups they defined the key variables, motivators, use of utilities, as well as demographic, professional and behavioral patterns (spending holidays, use of the internet, car ownership, mobile phones, etc.).

Personicx was developed as a tool for determining an overall characteristic of consumers and it does not specifically describe their expectations with regard to housing. Nevertheless, it can be used for identifying of target groups that in the next step can be explored further (for instance, by way of focus group interviews) and provides guidelines how to put together and get across messages to potential clients and choose the most effective communication channels.

Appropriate segmentation and selection of target segments is a critical point in the process of marketing planning. To be successful on a competitive market, the product offered for sale has to fully meet the buyers' expectations. Therefore it pays off to take into consideration preferences of the target group already at the project planning and design stage, right after defining the key parameters of the investment, such as localization, scale as well as price segment of the project.

Having defined the target groups, it is worth to broaden the knowledge about them. In the next article, we will focus on client studies, useful during implementation of residential investment.

More information about the discussed segmentation systems can be found at: www.uli.org and www.axciom.pl.

REAS News

Dr .Władysław Jan Brzeski (FRICS) on Real Vienna

During the Real Vienna International Fairs , organized on May 27 - 29 2008, Dr. Władysław Jan Brzeski (FRICS) participated in a discussion panel devoted to real estate valuation in the Central-Eastern and South-Eastern European region.

Joanna Iwanowska to moderate a session during CEDER conference in Bucharest

First edition of CEDER, conference focusing on Romanian real estate market, will take place on 5th June 2008 in Bucharest.

Joanna Iwanowska (Senior Consultant, Head of CEE Desk, REAS) will moderate a discussion panel entitled „Bucharest & the rest - residential market potential in the capital vs. 2nd and 3rd tier cities".

The organizer of the conference is Roberts Publishing Media Group.

REAS representatives are speakers during 10th Polish Real Estate Market Congress

The 10th Polish Real Estate Market Congress, under the motto „Best strategies for market stabilization era", will take place on 24 - 25 June 2008.

During the first day of the congress, Paulina Starzyńska (Marketing & Communications Manager, REAS) will deliver a presentation entitled: „It's time for marketing - the client in the spotlight." On the next day, 25th June, Joanna Iwanowska will discuss „The perspectives of new residential investment markets in Central Europe".

The congress is organized by Informedia Polska.

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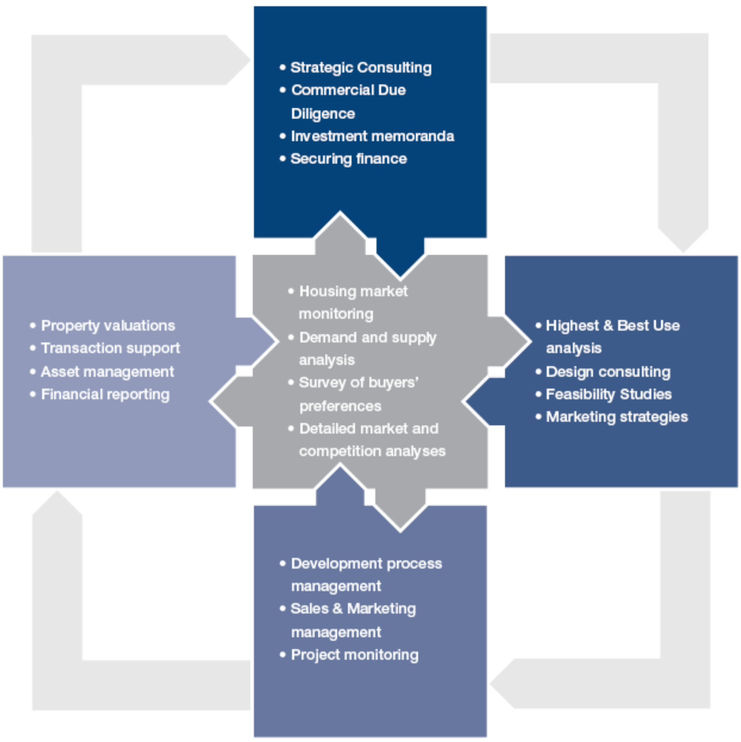

REAS is an expert advisor in the planning and development of housing projects in Poland and Romania.

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.

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