

The development of the real estate market in Poland

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Abstract

The author presents contemporary issues and current trends in the Polish property market, including touching timely and important topic as sustainable development and applies it to the real estate market. The first part is a description of the regulatory changes in the real estate and financial markets. You can find information on the deregulation of real estate professionals and new professions which have recently been in the field of real estate brokerage. In the second part, the author analyzes the current trends in the commercial market, especially office market. The last part is devoted to ecological construction, the so-called passive houses. The author presents the examples of the construction.

Key words: *deregulation of real estate professionals, financial market development direction.*

Introduction

The Polish real estate market in the first half of 2013 can be summed up as a fall in real estate prices, rising credit costs and deregulation of real estate professionals. The real estate market in Poland is dynamically changing market, interesting in terms of research and science. This is a market, which provides opportunities for comprehensive development and exciting career prospects. A visible trend in the Polish real estate market is to implement the concept of sustainable development, co-called *ecological trend*. Changing regulations, both in the operation of the real estate market and the availability of credit, will significantly influence the direction of development of the market. The aim of the research described in the article is the identification, analysis and evaluation of contemporary problems of the real estate and finance market, as well as the scheme of improvement factors of property management in the context of sustainability. According to acquired thesis, the

sustainable development of the real estate market is a determination of efficiency improvement of economic, social and environmental performance of organizations in the Polish real estate market.

Trends in the real estate market and the financial market in Poland

New professions of real estate market and deregulation

The real estate market in Poland develops dynamically. There is growing competition between intermediaries in real estate market, growing customer demands. On 19th April 2013, the Polish government adopted a draft of the law on changing laws governing the exercise of certain professions, including real estate professionals. The parliament decided to completely open competition of real estate agent and property manager. An amendment adopted in the field of professional appraiser increased the scope of deregulation i.e. it involves lowering the requirement of higher education (from master's degree to higher), introduces the possibility of exemption from professional examination conferring authority on the basis of the powers of diploma. The adopted amendment introduces an obligation of full practice while studying in a place of professional practice, provided that the practice's programme is based on an agreement between the university and the organization of professional appraisers, and also exempts persons who have documented two years of experience in a position involving the valuation of real estate (Ministry of Justice. 2013). It remains the obligation to perform professional practice, but at least six months. It will continue to run a central register of exports by the minister for construction. On 1st January 2014, information about disciplinary sanctions against appraisers were removed from the register provided they have already been blurred. The new regulations in the field of real estate professionals applied from 1st January 2014.

In terms of real estate professionals the Parliament adopted the amendments of the Senate providing for the maintenance of the obligation to take out liability insurance. The real estate agent and real estate manager can perform actions on the basis of an agreement in writing (Gąsiorowska. 2013). Accordingly, the decision of the Parliament and signed by the President eliminate the articles of the law on real estate, which previously governed the legal nature of the profession of manager and real estate agent. However, the fact of liquidation provisions does not mean

that the real estate market competition will no longer exist. The associations of brokers and property managers organize internal training and issue certificates.

For some time distribution of the real estate market into smaller segments can be observed. A good example is the company Home Broker, which develops new professions, such as primary market trader, specialist in land, real estate advisor or specialist holiday letting. Home Broker is a real estate advisory firm, providing services to real estate agents (Home Broker. 2014). Trader primary market is an expert on housing development, working together with developers and real estate advisors, i.e. negotiates special housing prices and gaining information about the demand for properties with specific parameters. Combined information in such a way allows conducting transactions of purchase/sale of real estate in a short time. A person who wants to become a trader in primary market should have negotiating skills. Such a person should examine the local primary market, creating confidence, be convincing and have necessary legal knowledge, economic and in terms of the real estate market.

In recent years, increasing the amount of land transactions, so grows the need for advisors specializing in this segment of the market. Home Broker created profession as land's specialist, who is a partner in the investment Earth. Relevant investments in land can generate several times higher rate of return than previously reported annual increases in agricultural land. Work of land's specialist is associated with the work 'in the field'. Here is needed indispensable knowledge of the local market, the ability to assess the prospects of rising prices, the predictability, the ability to reach out to people who have suitable land and want to sell it. Moreover, land's specialist should have orientation in the local development plan and the plans for the development of local authorities.

Another interesting specialization in real estate is brokerage in sales of holiday property. In this segment, profits depend largely on the potential rent, occupancy, length of the season or the attractiveness of the area.

A person with experience in real estate, having intuition, skills, foresight, risk assessment, forecasting can find his/her place in commercial premises. Home Broker company defined this position as adviser in the service sector or profession combining analytics and accounting in one. Very important is knowledge about local services market and knowledge of trends and factors influencing prices (Węglarz. 2013)).

The well-known profession of agent in real estate allows everyone to choose their own career path and grind specializes knowledge and skills in a narrow field, allowing to be professional. The abolition of formal requirements and belief in the 'invisible hand' of the market of real estate may carry certain risks, but that will pick up managers and brokers prepared for professional issues. Many real estate professionals, including well-known professor Ewa Kucharska-Stasiak (Head of Department of Investment and Real Estate, University of Łódź) warn against the belief in the reliability and validity of the deregulation of real estate profession. According to Kucharska-Stasiak, there are no reliable markets, which would not need instruments to support their operation and also the real estate market is not perfectly functioning one. The question arises, whether a person without education will know how to determine the right to the property, to evaluate the economic merits of investing in real estate, how he/she will be able to professionally advise property owners as a manager (Kucharska-Stasiak. 2013)). The answer was the year 2014. As the report of Euler Hermes company, in the first half of 2014 fell many companies involved in real estate transactions.

The current situation and direction of changes in the financial market in Poland

According to analysts from Open Finance, the biggest in Poland and only listed on the stock exchange financial advisory firm (Interior materials, 2013), 2013 was the best time to purchase a home for several reasons. Analysts pointed to the low installments of housing loans. With the lower credit cost, creditworthiness was higher than last years, which means that the same income could apply for higher credit. Housing process have fallen to 2006 levels. Analysts argue their opinion as saying that since April 2012 the number of housing starts and permits issued to developers for the construction fell, which can translate into a reduction of the new homes available on the primary market. Under the conditions of continued demand, the decline in the supply of new housing may increase prices. In a situation of falling interest rates, banks will be more willing to increase the profit margins of credit, which is an important component of interest (Bankier.pl. 2013). What is more, the Financial Supervision Commission introduced from 1st January 2014 the obligation to hold at least 5% of their own contribution, which can eliminate a certain group of customers applying for credit. According to the creators of the

amendment to Recommendation S, the ratio of loan repayments to income should not exceed more than 40% (Financial Supervision. 2013, Kochalska. 2013). Polish government supports the development of Polish real estate market through government's programs – actually *Flat for young*. By the way, the program participates in the pro-family policy.

The Polish Ministry of Finance says, that Poland's deficit stood at PLN 38,5 bn and the Polish national debt rose to more than PLN 853 bn at the end of November 2013. In 2013, the Polish Monetary Council cut the National Bank of Poland's key interest rate several times, down to 2,5% in July 2013. In that time, there were no rapid swings in the exchange rates between the Polish zloty and the world's major currencies. Polish investment market volume in 2013 hit a record EUR 3.12 bn - it has been the best result since 2006.

Commercial real estate market in Poland

The research shows, that Polish commercial real estate market is gaining momentum. The followings are the most important conclusions which come from different types of reports about this type of market. Firstly, the number of extension centres is increasing (six galleries will be expended of by a total of 110 thousand sq m). Gallery Bronowice in Cracow, Poznan City Center and Gallery Katowice are the largest cast galleries in 2013. The highest density area shopping centers is in Wroclaw and Poznan, the smallest – in Szczecin. In Warsaw we have high supply and a large number of vacancy rate of office space. This causes an increase in the bargaining power of tenants. Office market in Wroclaw is the second fastest growing office space market in Poland (after Warsaw). Polish entities acquired properties with a total value about EUR 263 million. Resources of modern warehouse space in Poland are close to the threshold of 8 million sq m. The highest value of a single commercial property sold in Poland amounted to EUR 412 million. In 2013, Poland was founded in 312 discount stores. Poland, as a country dominant in Central Europe, is seen as an attractive market for investors. In Warsaw in 2013 were completed over 298 000 sq m new office space. Consequently, at the end of the year capital resources amounted to 4.11 million sq m (Marketbeat. 2014).

Sustainable construction is one of the most important current environmental trends in the property market. You can see the growing popularity of green certificates, which are confirmation that the object is user-friendly and environment at each stage of the life cycle, i.e. from construction to maintenance and repairs. On

the real estate market become increasingly important type of LEED Leadership in Energy and Environmental Design) certification or BREEAM. Certified buildings are more competitive. Available research on the commercial development of green building in Poland show, that primary factors in the decision-making of investors, developers and tenants to protect the environment are: desire to reduce costs, desire to improve the image of company, striving to improve the environmental area, rising its market position and legal conditions. The obstacle in the application of innovative solutions are most often financial aspects – lack of funds and the high cost of implementation of innovations. The research conducted by a team of University of Economics in Cracow, Department of Economics and Real Estate Investment Process in 2012 shows, that experts in commercial real estate in Cracow and Warsaw (the study involved 36 organizations), who took part in the study believe, that the list of the most important features to be taken into account when choosing office space is: rent (100%), location of the building (83%), structure and size of the office space (75%), costs of operating (58%), availability of parking (50%). The question of whether having a choice comparable to two office buildings, one with ecological certificate and one without, most respondents would choose a building with certificate. However, respondents did not show a tendency to incur greater costs of the lease in exchange for possession of the surface with ecological certificate. The most valued by respondents (in Cracow) ecological certificate is British BREEAM and later LEED (Belniak. 2013). Environmental awareness in the market of commercial office properties over time increases and this trend is growing.

Ecological trend – sustainable development in the real estate market

An important area of implementation of the concept of sustainable development is the construction sector. This sector plays a significant role in the national economy, economic growth in emissions, use of natural resources and energy or production of waste. Basic aspects of the implementation of the concept of sustainable development in relation to the buildings is elimination of problems, among others CO₂ emissions and its reduction, minimization of construction and demolition, the prevention of air pollution inside the building. The research show that direct energy consumption by the construction sector is about 30% (data not shown in intermediate consumption in industry and transport). The study in Japan indicates

the increased energy consumption during operation than the construction of buildings. The highest energy consumption refers to the heating and cooling of buildings, water heating lighting and use of household electrical appliances.

In common parlance, sustainable buildings are referred to as green buildings. These are buildings that are characterized by minimal consumption of natural resources at all stages of the life cycle of the building, and low negative impact on the environment compared to traditional construction. Examples of energy-efficient construction in housing construction are *passive houses*. Passive buildings are the latest generation of energy-efficient buildings, with the highest thermal comfort and extremely low demand for thermal energy ratio of a maximum of 15 kWh/m², which is less than 1.5 liters of oil, or 1.5 m³ of natural gas for electricity m²/year or 5 kWh and heat pumps. Thanks to the use of passive energy, the buildings, itself heats and cools (Polish Passive House. 2013).

The studies of commercial real estate market show that users of office space tend to choose sustainable real estate due to lower operating costs, lower energy costs in such buildings or benefit branding. Further, such buildings have a higher value. Eco wear of passive house is smaller than in conventional buildings, so the value is more stable. It is worth to mention the cost of construction of sustainable buildings, which, as follows from the calculations, are higher than traditional buildings. It is assumed, that if the buildings generate sustainable benefits for a long period of use of the building, it must be aware of the high investment required in the initial phase of investment. According to the ranking Eco-Innovation Scoreboard 2011, Poland occupies the last place in terms of eco-innovation among the 27 countries of European Union (Croatia was not taken into account), but in the commercial market it is becoming a leader in green building among the Central-Eastern Europe countries last years (Belniak. 2013, p. 180).

In conclusion, sustainable buildings are characterized by higher rents, lower operating costs, higher value, lower risk and higher usability. Higher capital expenditures are offset by direct saving supplies and slower consumption of functional and moral objects (Belniak. 2013, p. 143).

The first passive house in Poland, confirmed by certified Passive House Institute in Darmstadt, was a house built in 2006 in Smolec near Wroclaw (Institute for Sustainable, 2011). Certified passive houses in Poland are still relatively little. One of the example is the project of home by companies MultiComfort and studio Z500, with an area of 119,9 m² in Boruszowice, near Tarnowskie Góry. The building takes

part in a five-year research project, during which the parameters are being monitored. The cost of construction of this passive house, prefabricated, timbered was higher by almost 13% than any other building prefabricated offered by MultiComfort. According to the inhabitant of the house, co-owner of MultoComfort, you must learn how to live in such a house. The house does not have drafts, in all areas there is the same temperature (21-23° C) and silence. The house is very bright and sunny, due to the large windows. The problem is, that you need to wash the windows (a 3-metre mop becomes helpful) as well as remember about draining the blinds in the summer to protect against excessive sunlight. Due to the fact that it takes part in research experiment, the house was equipped with more than 100 sensors, whose data goes directly to the central computer research lab at the University of Agriculture in Cracow. The house can be seen on the web at www.buduj-pasywnie.pl. The biggest result of the research will be recording the actual energy consumption of the building. If the test is successful, the basic thesis will be a statement that the traditional Polish wooden house should be like the ones over the countries, as it harmonizes with the natural environment and friendly people (Passive House. 2013).

Conclusions

Recognizable direction of the change which the current real estate market in Poland chooses is the implementation of the concept of sustainable development, especially in the construction sector. The 'green' construction is now eco-efficient and economically justified.

It can be expected that a large impact on the functioning of the real estate market in the coming years will be the deregulation of professions of real estate and tightening requirements for mortgage loans. By 2014, the rules for granting loans for apartment or house construction changed. A big impact on the housing market in Poland will have a government program 'Apartment for Young'. Experience of the 'Family on their Own' program can provide that a new program will gain popularity. The first year of the program shows that Poles are willing to reach for help of government.

In Polish conditions, the construction of passive houses (green) raises a lot of doubts, it is more cost-effective that building a house in a traditional way. These factors put off potential investors who do not have easy access to detailed analyzes

do not take into account the lower cost of home maintenance in the future. However, rising energy costs in the future and the requirements of the European Union will be an important factor in determining the choice of modern house building technology.

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