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HOUSING MARKET SUPPLY AND DEMAND IN POLAND: THE ROLE OF FUNDAMENTALS

Abstract

Insufficient supply of the housing market in Poland still build the distance that Poland has to bridge to catch up with the „old” 15 EU members states. The important macroeconomic factors shaping the housing market in Poland are:

- **the absence of long-term state housing policy**
- **low index of housing stock in comparison to country’s population**
- **the practice of renting apartments in the grey zone of economy**
- **specific housing aspirations of Poles, i.e. wishful thinking totally devoid of financial potential**

In the article we explore the themes above.

INTRODUCTION

Statistical data describing the macroeconomic status of Polish economy indicate that Polish economy is thriving [8]. That condition finds proof in the following:

- high rate of economic growth
- sound corporate finance
- declining unemployment rate
- low inflation rate
- low deficit on current accounts, and
- promising situation of the state budget.

Contractors [10] considered the prospects in building sector as optimistic and welcomed a preponderance of positive signs of general economic condition of the construction business.

1. MARKET FOR APARTMENTS

According to WGN Real Estate experts. Polish housing real property market is characterized by the following tendencies:²

- a high demand with an average supply³
- increasing “sell” prices – on average 34 per cent from January till December 2006⁴

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² Initiated in the beginning of 2006 and having every prospect to be sustained for the next coming years

³ For the next few years demand will exceed supply, especially in large cities. To give an example, Spain, with its population number comparable to Poland, builds approx. 500 thousand apartments p.a. In Poland only 118 thousand p.a.

- a high demand for two, and three-room apartments, and a declining demand for single-room ones, particularly those without a downtown address
- 2.5 increase in purchasing highest standard, luxury apartments
- approximately 92 per cent of buyers use bank credit⁵
- most active buyers are contained within 26 -45 years bracket
- small apartments are purchased by young people, aged 24 - 35, as their first dwelling
- location, finishing standard and neighbourhood mostly decide about the price of apartments

Having analysed the reasons for buying an apartment, RedNet Property Group experts [6] point out that single persons without any children are more mobile from those remaining in relationships and having children. That group of customers mostly regard the purchase of a property as a good investment.

2. MARKET FOR HOUSES

Since 2001, the market for houses has been the most stable segment of the property market. In the opinion of WGN Real Estate experts, the demand for houses in large cities, both on primary and secondary markets, exceeds demand by 7.4 per cent. That is the reason why the quotations for houses have been fairly stable. The fluctuations on local markets recorded every six months have been contained within 3 – 4.5 per cent bracket.

Apparently, the most wanted are houses of useful area below 200 sq.m., including an attic that could be converted into a useful space, built on lots 800 – 1.5 thousand sq.m., particularly those built in the past decade with the use of recent technologies that guarantee low maintenance costs. An attractive location is also an asset; that means a city district or a suburb with a convenient access to the downtown area. Quotations reach 480 thousand – 1.1 million for newly built houses, and 240- 600 thousand for buildings over ten years' old.

Buildings located within 10 km perimeter from the city center fetch the same prices as those within the city area.

There is also a demand for cheaper houses in need of refurbishment, located not farther than 30 km from the city, providing they have an agreeable neighbourhood. Those properties fetch 195 – 200 thousand PLN.

The offer of properties is enhanced with the houses under construction. A house without finishing, of a basic standard, with useable floor area up to 200 sq.m. fetches 150-250 thousand PLN. The price increases with the proximity to the city borders.

⁴ Basing on the past experience, particularly referring to 2002, when the demand for apartments dropped due to recession, yet prices were sustained, in 2007 the prices will rise at 5 – 10% a year. Possible higher rate may be dependent on:

- the prices of building lots
- adjusting pay levels and labour costs to the developed countries of the EU

⁵ Credit usually amounts to 78% of apartments' price. The number of those buyers who finance the property purchase totally by credit grew by 82%

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Due to a significant increase in prices of apartments, the difference between the prices of apartments and houses came so close that presently funds for buying a house out of town may be raised by selling a three-room downtown apartment of very high standard, or a two-room apartment at a very attractive location.

The market of residences is quite stable. They are properties difficult to dispose of, and an owner may have to wait a few years before a transaction finalizes. Owners who invested significant outlays to build such residences are not willing to go down on their quotations.

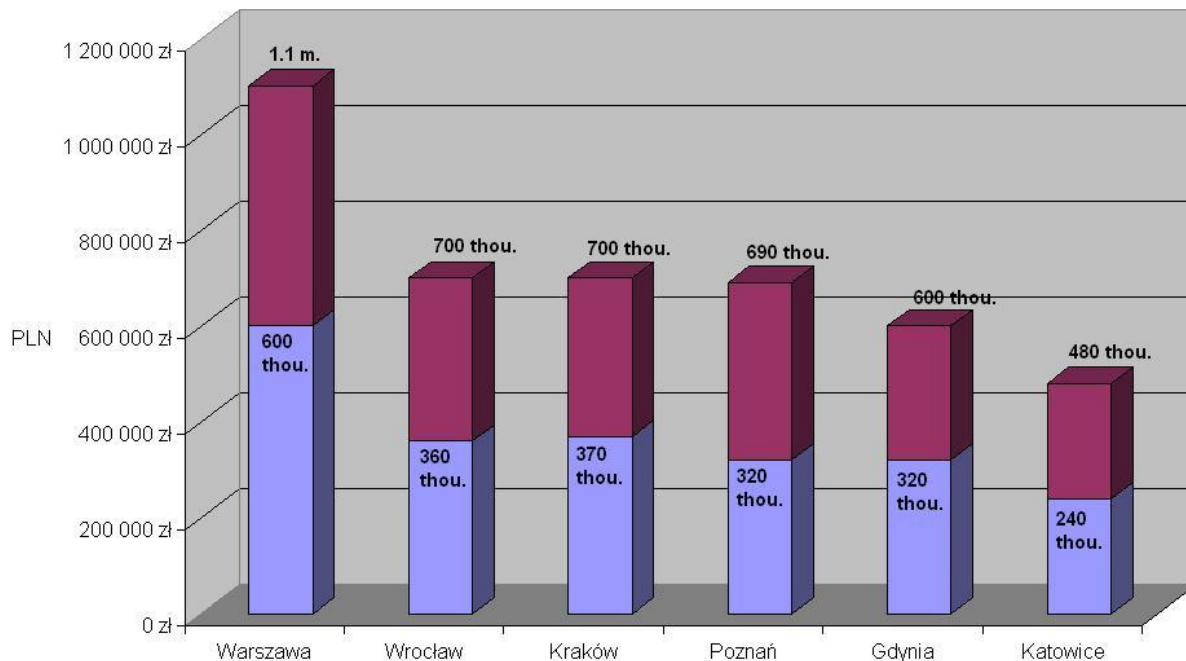


Figure 1. Secondary market for houses

Source: WGN 2006

3. DIRECTIONS OF DEVELOPMENT OF HOUSING SECTOR IN POLAND

The reform of Polish economy that was launched in 1989 changed dramatically the principles of participation of the state in financing housing [3]. Freeing the prices, changes in financing of housing, setting a market interest rate for housing credits, and the introduction of a uniform system of repayment of credit brought fundamental changes into housing market. The number of built apartments decreased.

Under the circumstances, when the price of an apartment reflects its real cost and it is set without the state interference, the future owner is free to decide about the most rational investment in property, having analysed its effectiveness, benefits for the buyer and feasibility. At the same time, freeing the prices of apartments caused that they became out of reach for most citizens without sufficient resources to afford them. Such situation pushed up the demand for

rented apartments, especially those offered for a modest rent (including accommodation provided by Social Building Society subsidized by the state) and social welfare apartments.

Housing policy formulated in conditions of a free market must respect specific character of apartments that are both the first necessity, and at the same time, a relatively expensive commodity. That is why, “in democratic states practicing market economy, the process of constructing, financing, exploitation and renting apartments is subject to legal and institutional regulations that are different from universal principles.” [2]

Official government documents [7] highlight the fact that economic growth, macroeconomic stabilization and accession of Poland to the European Union have created advantageous conditions for the development of housing sector in Poland, facilitating accelerated qualitative as well as quantitative provision of housing stock.

That development will be more dependent on evolving social and cultural models rather than demographic factors.⁹ This is best reflected by the following trends:

- gradual decline of multi-generation accommodation,
- increasing aspirations to better standards of living

Market instruments of financing housing are becoming available to increasingly wider strata of society, thus enabling citizens to satisfy their housing needs by themselves. However, there still is, and there will be in the decades to come, a large group of families for whom either a purchase, or maintenance of their own apartment will be beyond their means, or who in view of the necessity to migrate in search of jobs do not desire to become tied up by buying into an apartment. Such people should have an opportunity to rent apartments of different standard and rent.¹⁰

The policy defined by the Strategy is oriented at reaching strategic objectives which stipulate that by 2025 the level of satisfaction of housing needs in Poland should be brought to the current average level noted by the old member states of the EU. Those objectives should be reached by eliminating current civilization deficiencies resulting from:

- involuntary sharing of accommodation
- small useful area of apartments
- low technical standard of apartments

The stipulations of the Polish Republic Constitution give much attention to the satisfaction of housing needs by the people of Poland, and the role of State authorities. Pursuant to Article 71, p.1 of the main statute, State authorities are obliged to support policy conducive to “meeting citizens’ housing needs, and in particular, to assist the development of social housing, and support citizens’ aspirations to find their own place to live”.

Territorial government plays an important role here. Pursuant to Article 4 of the Statute of 21 June 2001 on the protection of tenants’ rights, gmina housing stock and the amendments to the Civil Code (Journal of Law, number 71, item 733, with later amendments) while implementing their own objectives, the territorial government should:

- in general – ensure conditions conducive to meeting the demand for housing within the confines of a territorial community,

⁹ Forecast changes of the country’s population will not become a decisive demographic factor exerting pressure on a radical increase of housing stock.

¹⁰ Prerequisites for such a offer are, among others:

- making rent economic and the necessary deregulation of rent with a proper system of rent allowances and a range of social apartments
- support from public authorities to private non-profit investors building apartments permanently designated for low-rent accommodation

- in keeping with the cases described by the Statute, provide social housing, temporary housing, and satisfy housing needs of low-income households.

Additionally, it should be noted that the Strategy advocates the necessity to resign from lodgings provided by the companies for their employees, and commence the provision of service lodgings (similarly to the practice observed in Great Britain) . The lease of lodgings would be granted for the time of exercising specified public functions (including some civil servants, teachers, fire fighters and policemen).

According to the opinion of members of the Society of Builders of Houses and Apartments (SBDIM)¹¹, the implementation of objectives stipulated by the Strategy calls for the adoption of Polish Housing Programme, in the form of a statute, which:

- should comprise the period 2007 – 2013 correlated with the EU budget, and include “all forms and types of housing”;
- should be based on the definitions of social, municipal, co-operative, commercial, recreational and ancillary building, to be agreed with the European Commission
- “should revert to financing sources including the EU funds, state budget funds, gmina financial resources, population’s own funds, mortgage loans and other types of loans, venture capital, special purposes building projects (e.g. military) and building by corporate investors”

CONCLUSION.

Official statistics seem to disregard the practice of renting apartments in the grey zone of economy (particularly active in large agglomerations and academic centres). The available reports [9] stress the paradox that the housing stock rented by individuals in the grey zone, which is beyond any control and statistics , constitutes a segment conforming to the rules of the market, where:

- the level of liquidity is similar to the one that should correspond to apartments to let,
- there are no administrative price restraints
- there are no political barriers (e.g. related to gmina rent policy)
- entering into a rent agreement is easy and it does not involve any additional costs to be borne by the tenant lessee (e.g. that would in any way tie him up with the apartment)

Hence, that is an important macroeconomic factor of the housing market in Poland.

Another macroeconomic factor that needs attention is the absence of long-term state housing policy, and the resultant low index of housing stock in comparison to country’s population. In Poland there are 327 apartments (total of those lived-in and vacant) per 1,000 inhabitants., and 308 lived- in apartments/1,000 inhabitants. That index does not compare favourably to the UE indexes of 466 and 396, respectively. That comparison indicates the distance that Poland has to bridge to catch up with the “old” 15 European Union member states. That is the result of disproportions of affluence of the EU societies, and the afore mentioned improper policy of the state.

The situation of housing sector among various European states is by no means uniform. Apart from Denmark, Finland and France that enjoy a relatively stable market, we should mention Greece, Spain, Ireland and Portugal that are dynamically making up for many years of

¹¹ The position of the Society of Builders of Houses and Apartments on *Polish housing programme*, The Board of the Society of Builders of Houses and Apartments, Kraków, 6 April 2006. Also see: [4]

neglect in that area, where the annual intensity of building new apartments has been sustained at 10 apartments/1 thousand inhabitants for quite a few years. By comparison, in Poland that index reached 3 apartments/1 thousand in 2005.

Insufficient supply to the housing market in Poland should be viewed against the background of housing aspirations of Poles, which could be divided into [5]:

- wishful thinking totally devoid of financial potential (most often quoted by the politicians in times of election campaigns), and
- aspirations founded on a realistic assessment of current, and feasible in the near future financial potential

Hence, those aspirations we should also consider as a factor shaping the housing market in Poland.

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