

Residential Market Review

Commentaries and analyses by REAS



- >> High expectations, high announcements, low deliveries - **Joanna Iwanowska** and **Nicu Dinu** summarize the situation on **residential market in Bucharest** in 2007 // [p. 2](#)
- >> In 2007 the housing production in Szczecin was over two times bigger than in 2006. The **residential market in Szczecin** is becoming increasingly interesting for investors - writes **Jan Cieřla** // [p. 3](#)
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- >> We invite you to visit **Central Europe Meeting Point (Warsaw, 22-24.04.08)**.
As program partner, REAS will moderate four sessions:
 - „Bulgaria: A Rising Star in CEE” (Joanna Iwanowska)
 - „The Residential Markets in Central and Eastern Europe” (Dr. Władysław Jan Brzeski, FRICS)
 - „Third Tier Polish Cities: Where The New Residential Business Is” (Paweł Szejter)
 - „New Areas and Projects in The City Of Warsaw” (Kazimierz Kirejczyk) // [p. 6](#)
- >> **New edition of REAS quarterly reports** // [p. 6](#)

Bucharest

- an emerging residential market



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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).



Nicusor Dinu
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Nicu has vast experience in the Romanian real estate market, working with developers, large brokerages and construction companies.

High expectations, high announcements, low deliveries - this is how one could summarize the situation on the Bucharest residential market in 2007.

One of the prerequisites for reliable economic forecast of any kind is recognizing trends, patterns for the sector development. The problem in emerging property markets such as the Romanian one, is the lack of fully credible and representative official/statistical data. In such situation the obtainable data has to be confronted with information from the market, which also has to be filtered, weighed and verified.

In Romania, it is the residential project announcements that are one of the core reasons causing an information clutter when trying to have a clear overview on the supply-demand picture.

Approx. 1,500 - 2,000 apartments, were delivered in big and medium size residential projects in and around Bucharest in 2007, instead of the earlier announced and expected 3,500. According to information from developers, around 5,000 - 6,000 units are expected to be delivered in 2008.

With the total need for new apartments in Bucharest estimated around 135,000 units, this is still far below the average annual absorption level for the city. Comparing 2007 and 2008 figures with local demand and with other EU eastern European capitals, in Bucharest the numbers of units supplied is very low. After 2 years of the residential project development cycle - first one in the history of the Romanian real estate market, in fact - it is clearly visible that the rhythm of construction works is slow, even though off and on-plan sales till now were realized accordingly to developers expectations. Developers are selling far before starting the construction works, yet the numbers of delivered units is very small, which distorts the view of the market

There is another interesting phenomenon occurring currently on the Bucharest real estate market - the newly built residential blocks remain half-empty, despite the enormous housing need. A handful of examples:

- In the 'Quadra Place' project, with 343 apartments delivered in autumn 2007 in the west part of Bucharest, 20% to 25% of units are currently for resale by some agencies.

- 'Central Park': delivered 450 units in the end 2007 beginning 2008 in a very central location of the city. At the moment, at least 25% of units from the project is either for sale or for rent.

- 'Emerald Residence' with 279 apartments was delivered in March 2008 in the north east part of the city. According to developer statistics, only 40% apartments will be occupied by the final users. The rest are investments purchases.

- 'Baneasa Project': the biggest and one of the highest quality developments in Bucharest, delivered the first phase of the apartment buildings. Most of the units are now offered for rent.

As we can estimate from the above 1,000 units looked into, probably 40% will be occupied by the buyers, which means that only a 40% of buyers are the final users. The question is what will happen with the rest of the empty units and how will it affect the 2008 new unit sales and prices. Who will buy these units or who will rent these spaces? When will the projects be fully occupied? When will they create viable communities?

There can be several explanations of this situation. First of all, opportunistic investors who bought apartments for resale are asking huge prices, expecting big incomes from their investment. Also, investors who purchased apartments for rent are asking high monthly rents. One example is the already mentioned Baneasa Project, where 2 or 3 bedroom apartments are offered at a monthly rent of 3,500 - 4,000 Euro, while with the same budget one can rent a villa in the same area, with similar facilities. Therefore it can be said that expectations of the investors seem too high for the today's market. The profit figures obtainable two years ago, when there was no competition on the market, are not adequate anymore. At that moment, clients may choose from a wider variety of offers even though the overall number of new units delivered is not so big.

According to pessimists, this phenomenon, sometimes called "dark windows syndrome", may intensify in the Bucharest primary market in spring 2008, when a representative number of projects are due to be delivered. Taking into consideration that during this year, 4-5 times more units should be delivered than in 2007, it does raise a big question mark: how many new apartments will be inhabited by local citizens, especially in neighbourhoods still lacking basic infrastructure? Are we going to see these projects half-empty?

The residential market in Szczecin



Jan Cieśla
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Jan Cieśla graduated from the Faculty of Architecture of the Cracow University of Technology and continued his education at the Bauhaus-Universität in Weimar, Germany, obtaining a second master's degree in the Faculty of Management for Construction, Real Estate and Infrastructure. Currently he is a Ph.D. student at the Faculty of Architecture of the Cracow University of Technology.

In 2007 the housing production in Szczecin was over two times bigger than in 2006. The residential market in Szczecin is becoming increasingly interesting for investors.

Along with maturing, and hence a certain stabilization, of the country's largest local residential real estate markets, relevance is growing of medium-sized urban centers as potential locations of increased investment activity. One of these may become Szczecin – a city of rich tradition of the past and ambitious plans for the future.

A former Hanseatic city and the Pomorskie Duchy's capital, Szczecin also today has a potential of at least a regional centre, as within 200 km radius there is no other city of comparable 400,000 population, except Berlin. The Odra River and Lake Dąbie divide Szczecin into three main parts. These are: Lewobrzeże (Left Bank), the historical center where most city-wide functions are concentrated; Prawobrzeże (Right Bank) with differentiated development; and Miedzyodrze (In-Between Odra River) including areas of high natural merits as well as industrial/harbor grounds in direct vicinity of Śródmieście (Downtown).

Closely related to the shipyard industry and the harbor, Szczecin has been strongly affected with Poland's political transformation and associated crisis. Yet opening of the western economic structures has allowed for improvement of the city's economic standing – unemployment has fallen from over sixteen percent in 2004 to less than seven percent now. The municipal authorities' policy assumes provision of investment-friendly environment. Szczecin has ambitions to become an administrative centre for companies located in the nearby special economic zone. An important aspect of the city's strategy is improvement of its service infrastructure and efforts aimed at revitalization of the inner city areas.

A labor migration wave has greatly affected Szczecin. It should be underlined however that if the resettlement balance has remained negative, many people come to the city to stay, and these are young people mainly. Nearly 18% of the city's inhabitants are 20 to 29 year olds willing to study or work there. Availability of highly qualified human resources is one of the factors that attract potential employers to the city, which generates demand for manufacturing and office facilities, as well as – indirectly – for dwelling.

Residential construction in Szczecin is predominantly provided by local companies. In the previous years the annual residential construction outputs fluctuated from

nearly 1,000 to over 2,000 units. Housing cooperative contribution still remains large (ca. 30% in 2006). The recent years saw vigorous activity of TBS Social Building Associations, also numerous were individual development projects. However statistics show an increasing stature of commercial developers on multi-family and single-family residential markets alike.

The largest numbers of projects are implemented in the left bank Warszewo district, north of Śródmieście (Downtown). Many developers have succeeded in acquiring developable land there. Buyers appreciate this location because of convenient access to the city centre and to Police district, as well as of attractive green grounds in its neighborhood. Also Pogodno, a prestigious district of pre-WWII detached houses, is a preferred dwelling location. Only a few new projects are developed there, so most transactions are concludes on the secondary market.

The current offering is concentrated in the low and middle segments. The apartment prices typically rate below 6000 PLN/sqm. The high segment is hardly present, since projects that may aspire to the premium apartment status are sparse, and only a few of these have been developed beyond the design stage.

It is commonly believed that progressing improvement of the city's economic standing along with its demographic condition will contribute to overall increase in demand and will determine its structure. The core demand should constitute of local needs for affordable dwelling functionally suitable for young people – couples and families with children. Investment demand will stay limited, with possible exceptions for premises in unique, particularly attractive locations.

The suburbanization process now experienced will progress, especially in the city's northern and western outskirts and in areas with easy access to the motorway. Development projects are also expected near Śródmieście (Downtown), involving densification or revitalization of the existing urban tissue. Symptoms have been recently evident of serious interest in the Szczecin market of developers with at least national business range. Entering of such major players to the market may bring about some spectacular ventures that will significantly affect the Szczecin townscape.

More apartments in smaller cities - housing production in 2007 in Poland



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Consultant

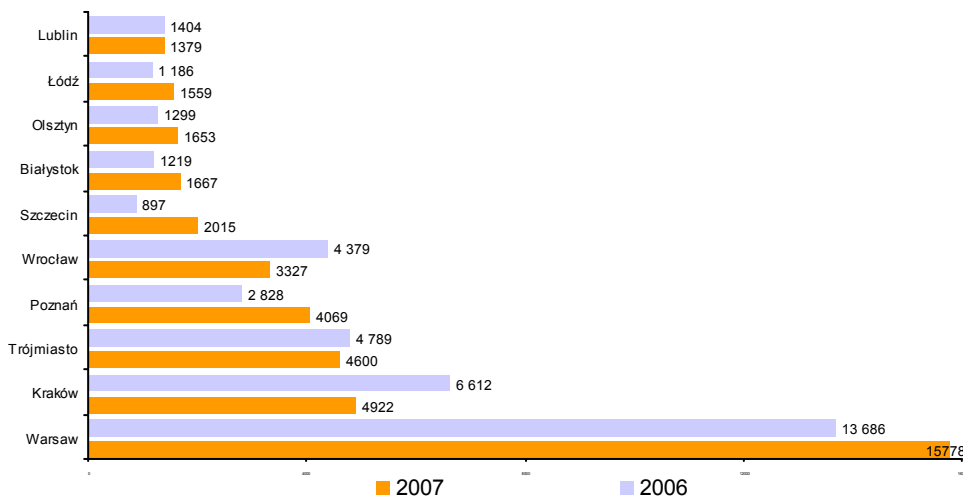
A graduate of the Finance and Banking specialization at the Warsaw University Faculty of Economic Sciences and the Interdisciplinary Department of Regional Planning and Management at the Warsaw Agricultural University. He also graduated from Postgraduate College of Property Surveying, Real Estate Agency and Management at the Faculty of Real Estate Agency.

The Polish residential market is experiencing a high rate supply growth, which does not characterize only the largest agglomerations. In 2007, the biggest supply increase was noted in the group of cities between 300 and 500 000 inhabitants

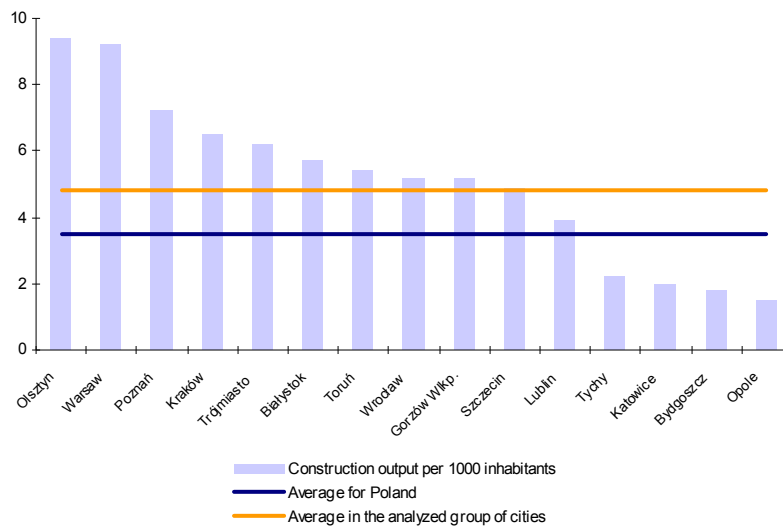
Growing competition and high-rate increases in land prices in the largest metropolises have forced developers and investors to look for another, higher yield promising markets. This phenomenon is reflected in residential construction performance in 2007.

According to the GUS Central Statistical Offices nearly 53,000 dwellings were completed in 2007 in cities of over 100,000 population. This group consists of 38 Poland's largest cities inhabited by 29% of its total population, and their aggregate residential construction output accounts for circa 39.5% of all dwellings completed in the country. This is about 10% more units than in the previous year. With the current revival of the market – the residential construction output has grown by 16% country-wide – this performance does not seem particularly impressive. It looks slightly different if the cities are divided into groups by their sizes and predominant functions.

Nearly 12% of Poland's overall residential construction output in 2007 (15,578 units) was accomplished in Warsaw. The other five largest cities, Krakow, Wroclaw, the Tri-City, Poznan, and Lodz, contributed altogether with 18,500 dwellings (circa 14% of the output). Surprisingly enough, the aggregate number of dwellings completed in the six largest cities has grown by mere 2.3%. It should be remembered however, that this group is by no means homogenous. The production has grown by nearly 44% in Poznan reaching over 4,000 housing units, whereas in Krakow it has declined since 2006 by as many as 25% to nearly 5,000 units. However if the numbers of apartments offered by developers in Krakow were considered, it wouldn't mean at all that the market had slowed down. The decline has resulted first and foremost from large delays in project completions. The residential construction output in Warsaw has increased by 15% from the previous



Top ten cities with largest residential construction output in 2007 - comparison with 2006 . Source: GUS



Residential construction output per 1,000 inhabitants in 2007 in 15 selected cities; Source: GUS

year, and the size of the current market offering indicates a potential of its further increases in the coming years.

In reaction to rising land prices in the most advanced markets and to shrinking margins some developers took interest in smaller local markets, which has translated into increased construction. The rate of 2006 – 2007 growth of residential construction in cities with population of 300,000-500,000 and 200,000-300,000 amounted to 37% and 26%, respectively. The growth by 17% in the group of cities with up to 200,000 inhabitants is also impressive, although in this group of 22 cities only slightly more than 9,000 dwellings were completed.

It's worth underlining that in the group of the smallest cities with up to 200,000 population the average residential construction output per 1,000 inhabitants amounted to mere 3.0 dwellings, while Poland's average is now circa 3.5. Most of the analyzed cities featured the residential construction output way below the average, which indicates a quite sizeable growth potential of prospective supply. In terms of residential construction performance in 2007 the record holder, a bit ahead of Warsaw, is Olsztyn, where 9.4 dwellings

were completed by 1,000 inhabitants. The markets of Poland's largest agglomeration, the Silesian Agglomeration, were still lagging behind. Despite 25% increase in the residential construction output in 2007, only 1.4 dwellings were completed per 1,000 inhabitants in the Agglomeration's nine largest cities. The highest-rate increases were accomplished in Ruda Śląska (2.5 dwellings/1,000 inhabitants), Tychy (2.2), and Katowice (2.0).

For some time now cities other than the top six have been gaining popularity among developers, just because of their low levels of market supply that enables quick development and sales of projects combined with the markets' relatively high growth potential in terms of demand and price levels alike. Population incomes are still relatively low there, and market preferences certainly different from those in big cities. Moreover the market sizes typically do not allow for development of large projects. It should be expected however that a well tailored and defined housing product offered to local markets may be a very profitable venture. The present revival of markets such as Bydgoszcz, Białystok, Szczecin, Katowice, Olsztyn, and Lublin that manifests in emergence of new qualitative segments and rise of average prices are developers' first steps towards investing in such markets. Market offering in many cities has been recently supplemented with residential high-rise, mixed-use, and loft type product.

Probably not all the analyzed cities' demographic and economic foundations are sufficient for rapid growth of their residential markets, but as the agglomeration markets mature, smaller cities will be more and more likely to catch up with them. The last year's residential construction performance in the smaller cities is most probably a symptom of beginning of their primary markets' growth. Many projects planned or under construction are on sale now, and their scheduled completion dates fall with the turn of 2008/2009 and thereafter.

REAS News

REAS sessions during the 3. Symposium Central Europe Meeting Point (22-24.04.2008)

As program partner of this years' edition of Central Europe Meeting Point, conference gathering investors interested in residential markets in the CEE region, REAS will moderate four sessions during the Symposium.

On April 23, Joanna Iwanowska will moderate the afternoon discussion panel entitled „Bulgaria: A Rising Star in CEE”, which will feature representatives of Spanish developers as well as participants of the Bulgarian market.

The following conference day will be inaugurated by the presentation „The Residential Markets in Central and Eastern Europe”, during which Dr. Władysław Jan Brzeski is going to compare the investment potential of primary markets of the CEE capitals.

Next, Paweł Szejter will moderate a discussion panel „Third Tier Polish Cities: Where The New Residential Business Is”, devoted to regional residential markets, which have today become an alternative investment location.

The conference will be closed by a presentation by Kazimierz Kirejczyk regarding „New Areas and Projects in The City Of Warsaw”, showing the parts of Warsaw with the largest potential .

We encourage you to familiarize yourselves with details about the Conference. For the full program of the 3. edition of Central Europe Meeting Point, please visit

<http://www.centraleuropemeeting.com/index.php>.

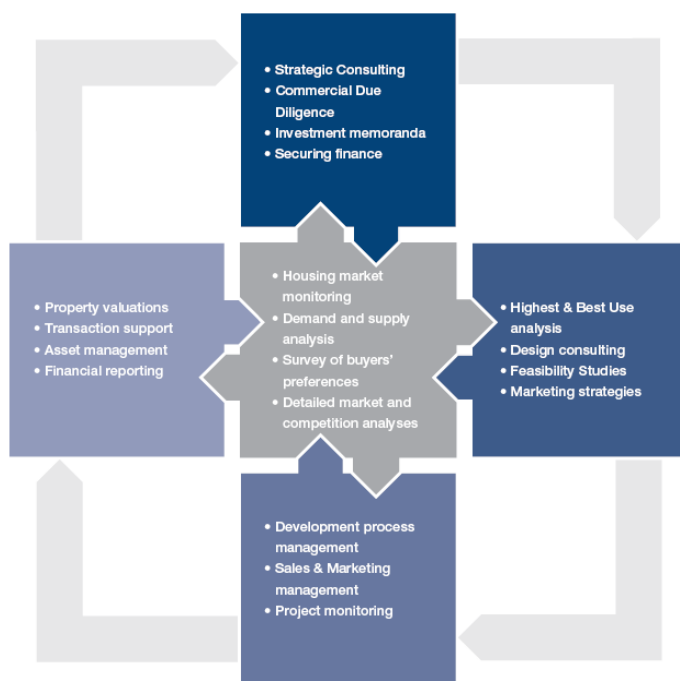
New edition of REAS reports on residential markets in Polish cities

The new edition of REAS reports on residential markets in Polish cities, including Warsaw, Krakow, Łódź, Poznań, Wrocław, and the Tri-City will be ready in the second half of April .

The reports will include the results of the residential market monitoring conducted in the 1. quarter of 2008.

For detailed information about the scope of reports, please visit http://www.reas.pl/reports_cities.html.

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.