

reas



# Residential market in Poland

Q2 2018

As expected, Q2 2018 saw a distinct slowdown in both supply and demand. While new supply did increase slightly on the level of supply recorded at the beginning of the year, it still remains below the average for the last two years. It is surprising that this occurred at a time when sales have usually risen through the year, and the most projects have appeared on the market. As nothing untoward has occurred in the macroeconomic climate that might dampen demand, the most obvious reason for the fall in the number of transactions is the rapid rise in prices.

The drop observed in the rate of units launched for sale in the first half of the year is due to a number of factors, however. On one hand developers face problems when purchasing land for new projects and obtaining the construction permits and required administrative permissions, while on the other costs of construction and shrinking availability of labour in the construction sector mean that it is becoming difficult to contract construction work at a price that ensures the envisaged margins.

### No. of units sold

Q1 2018



Q2 2018



### No. of units launched for sale

Q1 2018



Q2 2018



### No. of units in the offer at the end of quarter\*:

Q1 2018



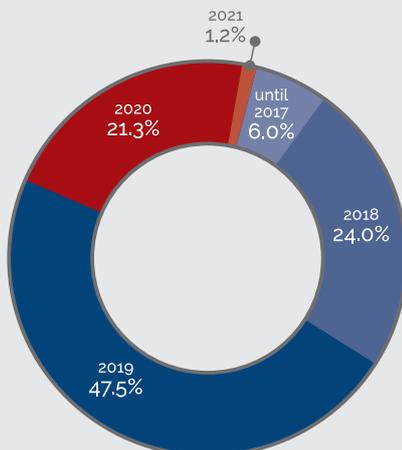
Q2 2018



\*total number of apartments offered for sale at the end of the period

### Structure of the market offer according to the projects' delivery date declared by the developer

(aggregated data for Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź)



Source: REAS

### Summary:

key facts on the local primary market

Q2 2018	6 CITIES	
	Change: Q2 2018/Q1 2018	Change: Q2 2018/Q2 2017
Sales	-15.2% ↓	-11.0% ↓
Flats launched for sale	3.8% ↑	-11.7% ↓
Total sales in the last four quarters	-2.7% ↓	2.2% ↑
Flats launched for sale in the last four quarters	-3.1% ↓	-4.1% ↓
Offer at quarter's-end	-0.6% ↓	-11.4% ↓
Completed yet unsold flats in the offer	-10.4% ↓	-28.4% ↓
Average price of flats launched for sale	12.3% ↑	14.0% ↑
Average price of flats sold	4.2% ↑	6.9% ↑
Average price of flats available in the offering	4.1% ↑	10.7% ↑

Source: REAS

## Supply and prices

In Q2 2018, according to REAS market monitoring, 15,400 flats were released in the six largest markets, which is 4% up on the preceding quarter. In total, over the last four quarters, 64,200 new units were put on sale on those markets, which is 6,000 less than the number of flats sold over the same period.

The greatest decrease in supply of new flats was seen in the Tri-City (22.5% quarter on quarter). The number of units put on sale decreased to the Q3 2015 level and was almost 40% down on the record-breaking level of Q2 2017. Wrocław showed a similar tendency, where the fall quarter on quarter was the same as in the Tri-City, and was almost 37% in comparison to the maximum level from the final quarter of 2017.

In Kraków, the number of releases on the market rose by 2% quarter on quarter, but this

was still one third down on the record reached in this regard in Q1 2017. A higher number of new flats on the previous quarter also reinforced the flats on offer in Warsaw. It needs to be stressed however that this high level of growth of as much as 41% was due to a very low level of supply in the previous quarter. Results for Q2 2018 were, however, 20% down on the best result to date, which occurred in Q2 2016.

The fall in Poznań was not very significant in relative terms but the four preceding quarters were the best period in that market's history in terms of the number of flats newly launched for sale on the market. Supply also remained high in Łódź. In these cities, the number of flats completed in 2019 will probably be even higher than this year. In the other cities surveyed, we will see production peak in 2018.

There was practically no change in the total number

of units available in the six largest cities at the end of June in relation to the end of March, which remained at 44,000. The number of flats on offer decreased however in all cities except Warsaw. The fall in individual cities was no more than 5%, and the increase seen in Warsaw was 3%.

The rate of sales and very low percentage of ready and unsold flats confirm that demand continues to be significantly higher than supply, and this has caused prices to inflate in all cities.

The greatest increase in the average price for flats on offer at the end of the quarter was in Kraków (5.3% quarter on quarter). This was probably an adjustment for a slower rate of growth in the previous quarters compared to the other cities surveyed. Almost the same rise was recorded in Warsaw (4.9% quarter on quarter), where the average price of a flat on offer at the

WARSAW		KRAKÓW		WROCŁAW		TRI-CITY		POZNAŃ		ŁÓDŹ	
Change: Q2 2018/Q1 2018	Change: Q2 2018/Q2 2017	Change: Q2 2018/Q1 2018	Change: Q2 2018/Q2 2017	Change: Q2 2018/Q1 2018	Change: Q2 2018/Q2 2017	Change: Q2 2018/Q1 2018	Change: Q2 2018/Q2 2017	Change: Q2 2018/Q1 2018	Change: Q2 2018/Q2 2017	Change: Q2 2018/Q1 2018	Change: Q2 2018/Q2 2017
-24.0% ↓	-20.8% ↓	-11.5% ↓	-12.1% ↓	-23.3% ↓	-11.2% ↓	-9.6% ↓	-17.5% ↓	6.7% ↑	20.8% ↑	16.2% ↑	49.7% ↑
40.6% ↑	-17.8% ↓	1.8% ↑	19.6% ↑	-22.5% ↓	-23.4% ↓	-22.5% ↓	-39.5% ↓	-5.1% ↓	157.8% ↑	1.7% ↑	-16.7% ↓
-5.0% ↓	1.2% ↑	-3.3% ↓	-6.4% ↓	-2.5% ↓	9.4% ↑	-4.2% ↓	1.1% ↑	5.2% ↑	-3.9% ↓	11.4% ↑	36.9% ↑
-5.2% ↓	-6.0% ↓	4.6% ↑	-19.7% ↓	-5.8% ↓	9.2% ↑	-11.2% ↓	-9.7% ↓	20.0% ↑	12.0% ↑	-4.8% ↓	19.9% ↑
3.4% ↑	-16.5% ↓	-2.8% ↓	-26.9% ↓	-2.3% ↓	-5.8% ↓	-2.8% ↓	-7.7% ↓	-1.0% ↓	13.1% ↑	-5.2% ↓	12.8% ↑
-10.2% ↓	-13.4% ↓	-9.7% ↓	-35.1% ↓	-6.7% ↓	-44.3% ↓	11.3% ↑	-19.9% ↓	-31.1% ↓	-54.1% ↓	-11.4% ↓	-5.7% ↓
14.3% ↑	15.4% ↑	13.0% ↑	13.3% ↑	-4.6% ↓	11.8% ↑	14.2% ↑	13.7% ↑	14.5% ↑	26.1% ↑	1.8% ↑	8.7% ↑
5.3% ↑	8.7% ↑	5.7% ↑	7.3% ↑	5.2% ↑	9.2% ↑	4.7% ↑	9.4% ↑	8.1% ↑	9.0% ↑	2.8% ↑	9.3% ↑
4.9% ↑	13.3% ↑	5.3% ↑	8.2% ↑	1.6% ↑	10.2% ↑	2.2% ↑	16.4% ↑	3.1% ↑	10.4% ↑	2.0% ↑	6.9% ↑

end of the quarter exceeded the highest price in the previous market boom for the first time in ten years. The nominal price, of course, because in real terms prices are still a long way away from the prices reached during the period of the price bubble.

In the other cities, the quarterly increase in average prices ranged from between 1.6% and 3.1%. The scale of the change can best be seen however from the perspective of the four quarters. Compared to Q2 2017, the greatest change was in the Tri-City (+16.4%). A rate of rise in double digits was also recorded in Warsaw (13.3%), Poznań (10.4%) and Wrocław (10.2%). The rise in Kraków was moderate in relation to other cities - 8.2%. In this context, the result in Łódź was the lowest, with a 6.9% rise.

Over the last ten years, most of the markets surveyed have systematically improved in terms of the ratio of aver-

age salary in the city to the average price offered. In other words, the surface area of a flat that could be bought for average pay has systematically been increasing. This trend was first reversed in Gdańsk in 2014, followed by Łódź in 2016, and all of the other cities in 2018. This is also a factor that will restrict demand in the future.

## Demand

In Q2 2018 the number of transactions recorded overall for the six largest markets was 15,600 – a drop of 15.2% on the previous quarter and 17.4% down on the record-breaking final quarter of 2017. The number of flats sold in the last four quarters was 70,300.

The average fall in sales on all of the six markets does not truly reflect events in the individual cities. Sales in Warsaw, the largest market in Poland, were down 24.0% quarter on quarter. Compared to the best

quarterly result in history, this difference was as much as 28.5%. REAS noted a similar fall in Wrocław of 23.3% quarter on quarter and of more than 28% below the Q4 2017 record.

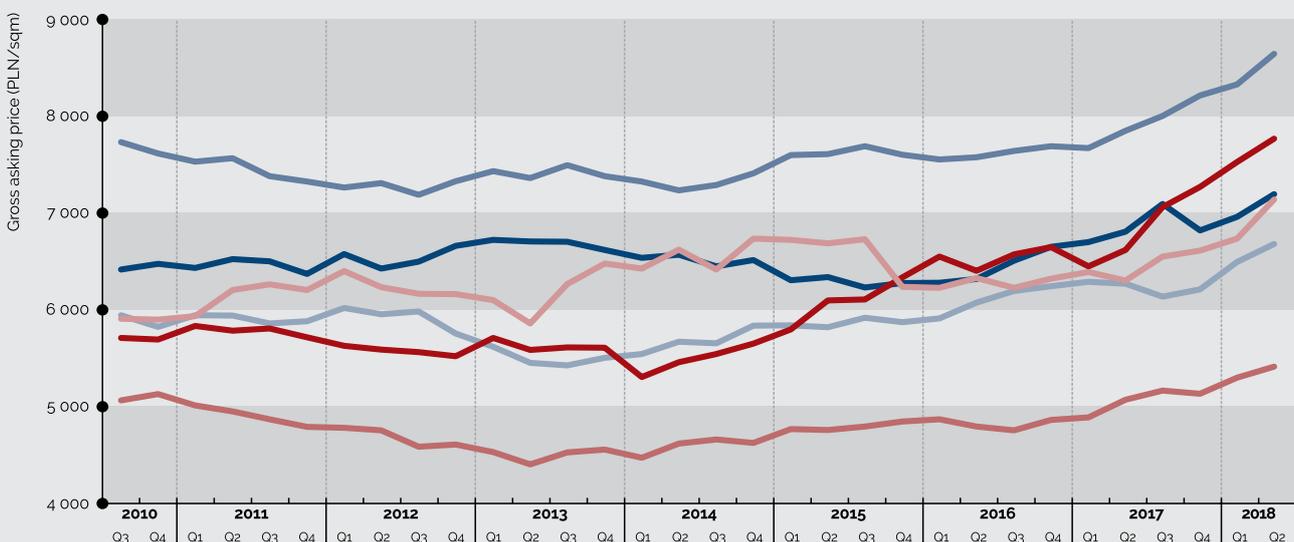
Developers operating in the Tri-City recorded the greatest decreases in the number of transactions at the beginning of this year. The difference quarter on quarter was only slight (9.6%) but this was a fall of as much as 29.5% in relation to the Q4 2017 record. A similar trend was seen in Kraków: the quarterly decrease of 11.5% was a difference of as much as 23.4% compared to the best result to date at the beginning of 2017.

Meanwhile, the sales results for Poznań and Łódź were a pleasant surprise. In Poznań, sales went up by 6.7% quarter on quarter, but this was still short of the record-breaking result at the beginning of last year by 11%.

## Average price of units launched for sale – trend

(PLN/sqm, incl. VAT)

— Warsaw — Kraków — Wrocław — Poznań — Tri-City — Łódź



Łódź on the other hand is surpassing its record results for the second quarter in a row. This time, sales rose by 16.2%, which seems to be a natural result of the huge increase in properties on offer in the latter half of last year.

## REAS Commentary

Data regarding the market situation at the end of Q2 2018 show a considerable drop in sales in most cities but distinctly higher prices. This occurrences take place despite stable mortgage costs, the healthy condition of the labour market, and higher salaries. This is confirmation that this year developers will find it hard to achieve sales resembling the 2017 record.

despite the excellent first quarter. In some cities sales appear to be returning to the 2016 level.

The results of listed companies also confirm this. A large portion of these companies were unable to increase sales in comparison to the first half of last year, despite a large project portfolio on offer.

The factor hampering demand the most is the rising prices, due to causes such as a significant rise in the cost of land and construction work. This is hitting the largest market players particularly hard, as they decide to adjust prices most quickly due to the scale of their operations and rate of sale of projects.

The increasing prices are also causing a new kind of buyer, interested in short-term speculation, to appear on the market, buying flats at the earliest construction stage, often at preferential prices for the first buyers, intending to sell the right to purchase the unit before construction is completed.

Falling supply will also be a factor affecting the level of sales, resulting in a smaller selection of units, as there is no indication that developers will be increasing production in the near future. Disruption of work of local authorities due to local elections and regulatory changes are among the factors that even right now are hampering supply.

It seems very likely that the drop in the number of transactions on the market will be slow and gradual, and this will give developers the chance to adapt to the changing situation on the market. The problem of serious incongruity between growing supply and decreasing demand, which is typical for real estate cycles, is also not on the horizon.

## Residential units launched for sale and sold annually vs. the volume of the offer

(aggregated data for Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź)



## ABOUT REAS

REAS is an advisory company that specializes in issues related to the residential market. Since 1997, we have been providing advisory services to developers, banks, investors, and other entities operating in the residential market, effectively supporting them in planning and executing their projects.

Over the last 5 years, we have been engaged in more than 2.6 thousand advisory projects for 253 different clients. Since the year 2000, REAS has been monitoring the primary residential market, accumulating data on projects in a database based on the GIS system. This knowledge allows REAS to offer a broad range of market analysis services and to devise long-term market forecasts that support the process of strategic planning.

REAS provides advisory services on all stages of the investment process, supporting the developers in the process of designing and preparing competitive products with the best market potential. The implemented advisory projects feature the following services: location analysis, recommendations regarding the project-mix and functionality of residential units, opinions and recommendations regarding architectural designs, pricing strategies and unit price lists, and recommendations regarding marketing and sales strategies. We also offer consultancy services regarding the Developer Act, including preparation of information prospectuses.

REAS also specializes in valuations of investment land and existing residential buildings. The valuations

are conducted by certified property valuers with many years of experience that allows them to use both domestic and foreign valuation standards, i.e. British (RICS), European (TEGOVA), American (USPAP), and international (IVSC).

Thanks to our long-term cooperation with institutions financing the residential market in Poland and the recognized reliability of our business plans, valuations and feasibility studies devised by the company, REAS is able to effectively support investors in the process of obtaining financing for new residential investments. We also provide transaction advisory and services regarding investment site disposal and acquisition.

### Our key services include:

- Market research, analysis and forecasting;
- Competition monitoring and analysis;
- Highest and Best Use studies;
- Development consultancy;
- Property valuations (RICS, TEGOVA, USPAP, IVSC);
- Business plans and financial feasibility studies;
- Rental sector, senior housing, condo hotels and second homes market consultancy;
- Capital raising and search for equity partners;
- Investment sites disposal & acquisition;
- Market due diligence;
- Acquisition/disposal of assets, portfolios and companies;
- Procurement of residential rental assets;
- Joint venture partnerships and share deals;
- Valuation of transaction objects.



**Kazimierz Kirejczyk, FRICS**

Managing Partner,  
President of the Board

kazimierz.kirejczyk@reas.pl



**Katarzyna Kuniewicz**

Partner,  
Market Analysis & Research

katarzyna.kuniewicz@reas.pl



**Paweł Szejter, MRICS**

Managing Partner,  
Development & Transaction Advisory

pawel.szejter@reas.pl



**Maximilian Mendel, PhD, MRICS**

Partner,  
Transaction Advisory

maximilian.mendel@reas.pl

The information presented in this publication should not be construed as professional advice or services. You should consult REAS or other professional advisors familiar with your particular factual situation for advice before making any decision. REAS Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa assumes no liability or responsibility for any errors or omissions in this publication. Except where noted otherwise, all publication contents are Copyright © 2018 by REAS Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa. All rights reserved.

Cover picture: Nowe Złotno, PROFIT DEVELOPMENT, Łódź.

[www.reas.pl](http://www.reas.pl)