

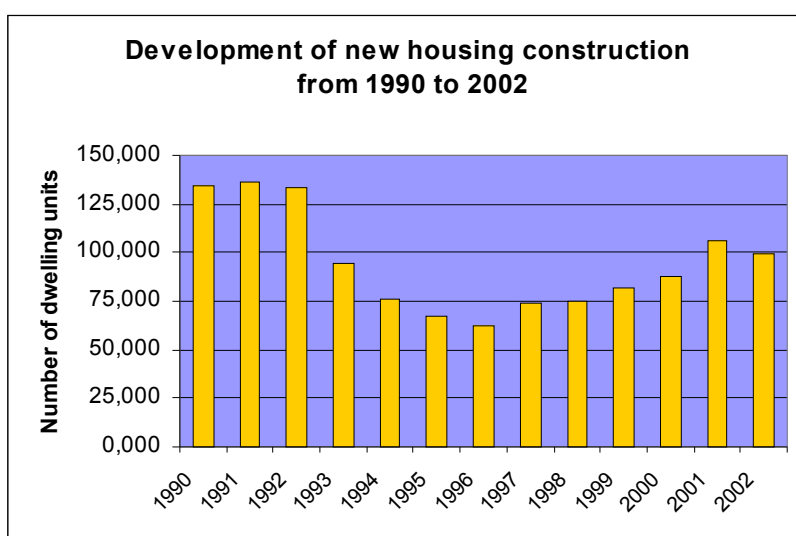
*This concise report provides an overview of the residential market in Poland. It focuses on the current status as well as the main difficulties in Polish housing. It will also highlight some import issues regarding prospects for investment in the Polish residential housing market.*

## I. The housing situation in Poland

The Polish housing sector has been one of the country's most troubled areas for more than half a century and although communist state policy gave considerable priority to the construction of public housing (mostly in the form of mass produced and standardized building), at the end of the communist period, housing was still a major social and political problem in Poland, particularly due to quantitative and qualitative deficits. Since the beginning of transition the situation did not improve. The state basically retreated out of the housing sector. Housing was no major topic on the political agenda of the Polish government and the sector was rather left alone, to deal with its problems itself.

### Housing shortage

In 1990, the disparity between the number of households and the available dwellings was estimated around 1.5 million. Since then, the gap between demand and supply grew. During the transition period, new dwelling construction has experienced a quite dramatic decrease and the output of completed dwellings fell from around 134,200 in 1990 to a low of 62,000 units in 1996, before the trend reversed itself. In 2002, the number of dwellings put into use amounted to about 97,600.



Data Source: GUS: *Budownictwo – wyniki działalności w 2002 r. (2003)*; pp. 88, 89.

The low number of annually constructed dwellings has led to the fact, that during the last 15 years the shortage of housing has increased. Latest data from the National Census 2002 show, that the rise in the number of households has been much higher than the increase in dwellings and today the ratio is 113 households per 100 dwellings (compared to 111.7 households per 100 dwellings in 1988). The number of dwellings per 1,000 inhabitants in Poland is 308. This figure is far behind Western and also Eastern European average<sup>1</sup> and Poland has the highest housing deficit in Europe. This deficit is currently estimated at around 2 million flats.

It is important to note, that the housing shortage is most pressing in those areas, which experience economic development and where the situation on the labour market is the best: the Greater Warszawa area, Poznan, the Tri-City (Gdansk, Sopot, Gdynia), Wroclaw and Krakow.

### **What kind of housing is needed?**

Today, there is especially need for housing for low and medium income groups. Especially young people establishing their households will have more and more difficulties in finding an affordable flat and with the baby-boom generation of the early 1980s entering the housing market in the coming years, the shortage of reasonably priced dwellings will largely increase. Furthermore, in the big cities there will be continuing need for housing for better-off residents, also because within the framework of EU accession, more and more European institutions will settle in Poland and will need new office-space as well as flats for their employees.

Currently, the focus of new construction projects is on owner-occupied housing. Nevertheless, also rental flats need to be constructed, as the existence of a certain ratio of rental flats is not only important for the functioning of the housing market, but also for the economic development of the country. Especially in a country like Poland, that is experiencing wide-ranging transformations with some regions booming and others declining, the existence of a substantial rental stock is the basis for the necessary mobility of the labour force.

### **What kind of housing is build?**

During the last 15 years, the number of housing constructed by private individuals has increased annually, and also the amount of dwellings constructed by new investors and commercial developers has grown constantly since 1993. At the same time, the output of public construction was very low throughout the last 12 years as well as the rate of co-operative housing construction (which was predominant in the 1970s and 1980s).

Today, mainly three types of housing units are built in Poland:

- private housing built by individuals for their own use (in 2002: approx. 52,400 dwellings, i.e. more than half of completed dwellings)
- housing built for rent or sale (in 2002: approx. 22,000 dwellings)
- housing built by co-operatives (in 2002: approx: 15,400 dwellings)

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<sup>1</sup> For example in the Czech Republic there are about 424 dwellings per 1,000 inhabitants, in Estonia 434 and in Germany around 469.

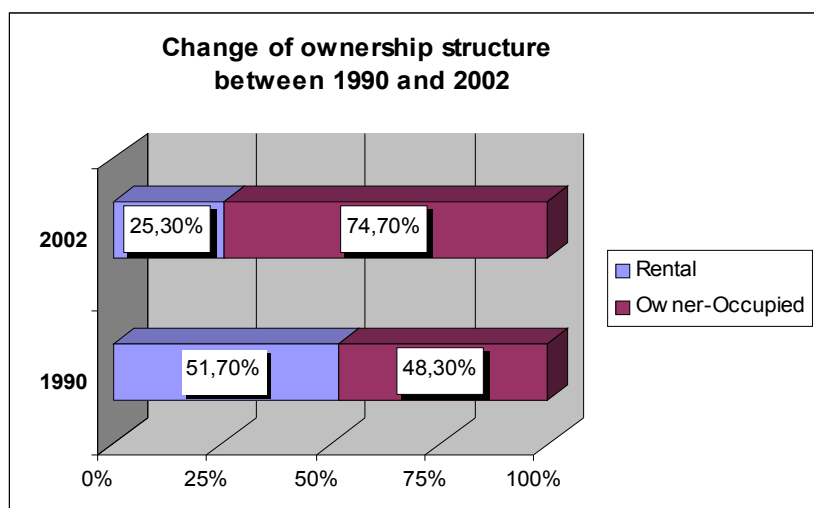
## Maintenance backlog and physical decay of the building stock

Besides the high quantitative deficit, one of the most urgent problems in Polish housing is the decay of the building stock, or rather the backlog of maintenance work. The current condition of huge parts of the housing stock is extremely bad. It is estimated that at least around 7.5 million dwellings, i.e. 64.1 percent of the whole stock, require substantial repairs and around 700 thousand should be replaced in the next 5 to 10 years.

Decay and maintenance problems can be found in all types of buildings: the old pre-war dwelling stock, the housing areas from the 1950s and 1960s, the large prefabricated housing estates and even sometimes in buildings erected in the 1990s. Nevertheless, the situation of the large industrially-produced housing estates of the late 1960s until the 1980s is the most challenging one due to their great technical demands and accelerating decay on the one hand and their quantitative importance as the habitat of a huge part of the Polish population.

## Privatisation of the dwelling stock

The quantitative and qualitative problems in Polish housing are accompanied by the fact, that a huge part of the existing dwelling stock has been sold to the sitting tenants after 1989. Due to the privatisation measures since 1990, the rental sector in Poland diminished and today constitutes of only around one quarter of the stock. The following graph compares the general ownership structures in 1990 and 2002. Thereby, the category 'rental' includes co-operative rental, and 'owner-occupied' includes co-operative owner-occupied.



Data Source: Own calculations on the basis of GUS: *Raport z wyników narodowego spisu powszechnego ludności i mieszkań 2002 (2003)*, p. 90.

The privatisation of single dwelling units and the subsequent situation of multiple-ownership in one building constitutes a major obstacle for the effective management and the necessary rehabilitation of the housing stock.

## II. Framework conditions on the Polish housing market

### Taxation in the Polish construction industry

The basic rate of Value Added Tax (VAT) in the Polish Construction Industry is 22 % - one of the highest rates in the European Union!

- The VAT on **construction services** is 22 %.
- A separate rate of 7 % VAT applies to **housing construction**, it will be in force until the end of 2007 and from 1 January 2008 a 22 % VAT will be in force on all real estate transactions.
- From 1 May 2004, i.e. the date of Polish accession to the EU, the VAT rate on **building materials** also increased, from 7 % to 22 %. The higher VAT rate will not substantially affect people buying flats or houses from developers or those who renovate using the services from construction firms. This is because the firms pay 22 % VAT on construction materials as purchased and can later deduct VAT already paid from VAT owing.
- After 1 May 2004, a 22 % VAT was introduced for the **sale of building lots** but will apply only to registered VAT payers. (Before 1 May 2004, the sale of building lots was exempted from VAT, purchasers paid only a 2 % land transfer tax).

### Financing

The issue of finance is of course central for Polish individuals/households that are investing in housing. Mortgage loans are offered by around 30 banks in Poland, of which the leader is still the state-owned PKO BP. In 2003, bank credits for housing have been the fastest developing branch of banks' offer and the value of housing credits grew by 30 percent last year. It is expected by banking experts, that this year the value of these credits will be even higher. In the first four month of 2004 altogether more than 46,000 new loans were granted, which is 46 percent up on the same period of the previous year.

### Permits and regulations

Like in all other European countries, a building permit - which is issued by the local administration - is required for anyone who plans to build. Due to the lack of zoning plans, the number of available building plots is still limited. At the moment investors are therefore often forced to seek sites within the existing urban fabric – this circumstance can be also seen positive, as it prevents urban sprawl and the irrational use of available land.

For the developer who tries to invest outside the areas of the big Polish cities, there also exists the problem of lacking infrastructure. Currently, the municipalities (gminy) do not have sufficient resources to pay for needed upgrades of infrastructure. This forces developers to pay for infrastructure and by this adds to the cost of the housing they sell.

### III. Outlook

On the background of the current political difficulties, esp. the unstable situation in the government, changes are slim, that residential construction will be among the major priorities of either government or parliamentary policy. It seems likely that the sector will have to continue to deal with its problems itself, which so far has not proved very successful. As the problems are immense, and the need to act is pressing, there is no alternative to new investment strategies with regard to housing construction and the refurbishment of the existing stock.

The described strong demand for housing and the urgent need to rehabilitate huge parts of the existing stock offers very good prospects for investments in the housing market. These investments should focus on the following sectors:

- Housing for new households in the form of single-family homes and also attractive multi-family buildings, i.e. flats for low, medium and also higher than average income households.
- Although in 2002/2003 developers were claiming difficulties in selling their luxury apartments in so-called residential parks, the construction of luxury homes will most probably continue to find a market as one can expect a new wave of demand now that Poland has become a member of the EU.
- Refurbishment of the existing stock, which also focusses on upgrading the standard and implementing energy efficient measures, is necessary in a major part of the Polish building stock and therefore offers various possibilities of activity and investment.

During the last decade, the Polish housing market in general was not easy accessible for foreign companies, as Polish regulations, laws and administrative procedures surrounding land ownership are sometimes complicated, thus permitting can take a long time. After Poland has now joined the European Union this situation will improve, as standards and regulations, e.g. applying to the import of building products into the market will become harmonized.

Still, the investment in the Polish housing and construction market, requires good knowledge about Polish procedures and regulations. It is therefore advisable, to consciously study procedures and rules, to learn about the Polish market in general and to co-operate with Polish partners.

The situation is a challenging one, but also one with future perspectives. Best changes on the residential construction market should have those investors, which develop a long-term business strategy combined with an active presence on the Polish housing market. Investors who have access to own capital resources or bank financing, are in now in a good position to start new residential housing projects or take part in revitalisation projects of the existing stock in the bigger Polish cities. Demand for housing will continue for many decades in Poland, therefore it seems to be worth to enter the market and build up a solid basis for future long-term investments.

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