

SUMMARY

Development priorities of the modern residential real estate market (Ed. by Piotr Bartkowiak)

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It is frequently emphasised in the literature on the subject that one of the greatest weaknesses of the real estate market, at least in Poland, is the lack of comprehensive and reliable information on its condition and development. The data available to an average investor is usually limited in terms of both the material and spatial scope. Activity on the real estate market, including real estate development, requires regular research on the market, because the process of development is long and multi-stage, and results in the transformation of space in terms of physical, material, social and economic aspects. Hence, this monograph offers a relevant bibliography in this regard.

Scientific research on the residential real estate market should be as comprehensive as possible, i.e. concern the sphere of supply, demand and dwelling prices. Additionally, it should take into account the following aspects: perspective of various (also weaker) stakeholders, historical data and development forecasts, local and global phenomena, economic indicators as well as opinions of market participants.

The aim of this monograph is to present the situation on the housing market in the context of the preferences and needs of customers purchasing dwellings, the impact of the COVID-19 pandemic on the real estate market, as well as to identify factors that may affect the value of real estate. While discussing the issues in question, the authors have taken into account the essence of the modern city and the processes which take place therein.

The analyses carried out in individual chapters have made it possible to identify various mismatches between the offers and expectations of buyers on the real estate market. The consequences of these mismatches can be serious. On the client side, this may mean limited fulfilment of actual housing needs, e.g. living in a dwelling which is smaller than expected or an outflow of clients to the suburban market, which has more affordable offers. On the developer

side, it may result in potential problems with the sale of dwellings (e.g. reluctance to purchase premises which are too expensive and too small, extended exposure time for dwellings for sale, necessity to lower prices).

Following the research procedure, the authors have formulated conclusions and recommendations regarding the directions of development of the residential real estate market.

In Chapter One, entitled “Programs for the reconstruction of cities in the face of social, economic and environmental challenges of shaping urban areas”, Anna Bernaciak and Alona Revko focus on programmes aimed at the transformation of contemporary cities, programmes which should include such issues as the quality of life of the inhabitants, the quality of space, its democratisation and sustainability, art, circular economy or the use of modern technology and creativity. This subject matter has not yet received a multi-faceted, systematised approach, neither in Polish nor in foreign literature on the subject. The reason for this might be the fact that this subject is a domain of research in various disciplines – economics, spatial planning, architecture and urban planning, as well as anthropology, sociology and cultural studies.

The authors try to answer the question of what contemporary cities are (referred to in literature as “new cities”). In addition to some concepts of shaping urban spaces, the authors also present selected urban policies along with an attempt to verify the effectiveness of their implementation. Contemporary cities are spaces of various challenges that become sources of conflicts, as well as places of unmet needs and unfulfilled ambitions. The challenges determine the choices of the decision-makers, whose actions are not always effective. The concepts of a compact city, a smart city and a sustainable city are recipes for the problems of modern cities: both the immediate ones and those which require shaping a comprehensive policy for the development of cities and urban areas. However, cities are not always properly diagnosed, and local authorities often lack specialists who could consciously and skilfully propose an optimal therapy.

Another challenge for present and future generations, and in particular for local authorities, is the suburbanisation related to the socio-economic development of cities and regions, and thus the suburbanisation of the country, which is the subject matter of Chapter Two – “Balancing the housing function in large cities”. According to the author – Agnieszka Mrozińska, the change of the spatial structure of rural and rural-urban gminas (‘gmina’ – a single administrative division in Poland) surrounding large cities accompanied by the development of their residential function (which is often very dynamic), causes concern for territorial cohesion, i.e. balanced development of supplementary functions. The change of the functions to new ones, so far characteristic of urban patterns, is connected with the necessity of optimal use of spatial resources and raises the

question of the existing relations between particular functions of the city and its character in the context of neighbouring gminas. The processes of suburbanisation observed around large cities intensify the residential function in areas that have so far been largely designated for agricultural activities. Maintaining and improving the quality of life of the inhabitants of suburban gminas is one of the tasks of the local government, which is responsible for providing residents with access to services that rural areas have not been predestined to do so far.

Based on the example of the gminas within the Poznań agglomeration, the author has noticed that the processes of suburbanisation were progressing, and the implementation of the residential function differed in intensity (in the years 2012-2016). The balance between the residential function and supplementary functions in the increasing volume of buildings was spatially diversified. This observation was made based on an analysis of the changes in the usable area of newly completed buildings intended to serve a given function. In the Poznań agglomeration, the residential function prevails over the supplementary function in terms of the area of newly completed buildings, and this relation is identical to the situation observed all around Poland and in most (19 out of 24) functional areas of large cities. Additionally, this observation also concerned the subgroups defined within the trade and service function as well as within the provision of public services.

According to the author, the degree of balancing the residential and supplementary functions in the agglomeration was in line with the concept of path-dependence. The general socio-economic situation and the similarities of the Poznań agglomeration to the level reflected by the average values for Poland and functionally similar areas made it possible to conclude that the internal differentiation of the values of the indicators analysed for individual gminas was shaped partly in response to the economic situation, and partly depending on the initial situation of individual gminas.

In the light of the above, it may be concluded that the balance between residential and supplementary functions depends on the following factors: the potential level of spatial development in the future (e.g. the presence of land that could be transformed for the needs of a new function), environmental or administrative development barriers (e.g. marshy ground, military training ground), the current scale of the occurrence of individual functions (e.g. the degree of market saturation with commercial space) or their location on important transport routes. According to the author, the list of determinants remains open, yet it requires further in-depth research on the shaping of suburban space.

The first two chapters show, among other things, the importance of social sustainability in housing. In Chapter Three, entitled "Tenant participation as an element of social sustainability", Karim Youssef and Katarzyna Suszyńska deal with selected issues related to the position of tenants in housing. According to

the authors, sustainable social development should take into account both the political dimension and the issues of division of power and control, while the concept itself includes the principles of social equality, access to resources, participation and social capital. The authors write about the quality of living in the existing housing stock of social dwellings, referring to the research on the involvement of tenants in housing issues. It turns out that sustainable housing development consists not only in improving the demand and supply, but also in increasing the participation of tenants, which translates into an improvement in the quality of living in the existing housing stock. Tenants' involvement fosters strengthening social ties, increasing the sense of responsibility and belonging to a group, and thus helps to eliminate social problems.

The conducted research shows that the level of tenant participation in the social housing stock depends largely on the type of the social housing system adopted in a given country as well as the local conditions, but also the tradition of citizens' involvement in social life. Increasing tenant participation requires a long-term, multi-faceted plan based on civic education of the society, especially in the field of co-management of housing resources. It also requires establishing a system of promoting good practices and models of participation in managing social housing resources, designed in economies with well-developed social housing systems. However, it is inextricably linked with well-prepared legal regulations implemented by the government administration, which would allow for the participation of social housing tenants in the co-management of the resource in question.

Chapter Four, "Purchasing abilities of young people on the local housing market" by Łukasz Strączkowski, presents the results of the research highlighting a different social aspect. This research was undertaken with the conviction that there is a need to have information about the choices, views and preferences of the young generation, a generation which makes numerous decisions with short- or long-term consequences. Such information may be used, for example, to assess the actions taken by young people, predict various market trends, segment buyers, match products to expectations, as well as create policies at the local or self-government level to meet the needs of the young generation, or to remove barriers to its proper development. The research conducted so far among young people has focused on the housing situation as well as revealed or stated preferences. Meanwhile, it may be noted that there are a number of problem areas (the way of perceiving a dwelling, housing preferences, expectations and barriers related to purchasing a dwelling, the tendency to purchase very specific products). However, questions arise about the possibility of fulfilling this potential, about the chances of transforming the needs into real demand.

This chapter describes the economic situation of young people, including the level of wages they receive, their housing preferences and the conditions on

the local housing market. Detailed research and inference were carried out for the market of the city of Poznań and its neighbouring suburban towns. Based on the collected market data, the housing availability indicators were estimated, showing the purchasing power of young people's income.

On the basis of the literature on the subject, the author concludes that the inability to meet housing needs has a negative impact on the development of young people – it may cause a feeling of instability, limit plans related to marriage or having children. At the same time, the author points out that the economic situation of a large group of young people is not conducive to making decisions about the purchase of dwellings, which is noticeable in the declarations of the interested parties and in official government documents. It may be concluded that the newly built housing stock is not generally aimed at people with average and low income (this problem is visible when the income of young people is compared with the prices of dwellings), almost half (45.1%) of the people aged 25 to 34 live with their parents (for comparison, the average in the entire European Union is 28.6%) and there is a significant barrier to financing housing purchases (limited creditworthiness), especially for families with children.

The compiled data are important because – according to the research conducted on the real estate market in Poznań – the main intention of young dwelling buyers is to satisfy their housing needs (94% of the respondents), and the preferences regarding the size of the premises (relatively limited) reach 50-60 m². Therefore, these needs and preferences must be combined with the currently unfavourable conditions on the housing market, where prices were systematically rising in the analysed period.

Taking into account the market prices of dwellings and the income of young people, the author has determined housing affordability indicators, reflecting the purchasing power on the local real estate market. The obtained results made it possible to state explicitly that dwellings on the Poznań real estate market are not affordable for young households under the assumptions adopted in the analysis. This means that young dwelling buyers must seriously verify their housing preferences unless they have support, e.g. from their families. In other words, although young people would prefer larger dwellings, they may have to be content with smaller ones. One alternative is purchasing a dwelling outside the city, where the housing affordability indicators are more favourable for young people. The author also highlights the need for further research in this area, due to the acceptability of the current state of affairs among this age group.

In the following chapter, entitled "Housing maintenance costs for retirees and disability pensioners compared to other households in the years 1993-2019", Anna Górska depicts housing-related problems from a different perspective, i.e. the perspective of the elderly. An increase in the number of elderly people

in the society affects not only the labour market, medical care system and social welfare, but also many other aspects of the economy, including the real estate market. Demographic changes in Poland make it necessary to analyse the resources and housing needs of older people, including the adaptation of resources to the health condition of the seniors. The living conditions of the elderly are most often characterised by high technical wear and tear of the stock and its inadequacy to the needs of the inhabitants. This results in higher costs related to the maintenance of dwellings, which constitutes a large part of the expenses of retirees and disability pensioners. There are also additional costs of adjusting the stock to the health condition of the seniors. Therefore, the author shows that analysing changes in the costs of living and furnishing the dwellings of retirees and disability pensioners as well as their trends compared to the corresponding costs of other households is an important issue that should be thoroughly examined.

Following the analysis and assessment, housing maintenance costs for senior citizens are one of the highest in all household groups and account for over 20% of all expenses. The largest share in the cost of housing is the cost of heating, while in the analysis of the dynamics, expenses for cold water constitute a key share. The increase in expenses may, on the one hand, result from the growing unit costs for utilities, and on the other hand, it may be related to the condition of the housing stock. The author concludes that financial issues are crucial for many elderly people, and therefore this socially important research problem should be subject to further detailed analysis.

Continuing the discussion on the issues of elderly people on the real estate market, in the chapter entitled “Commercial retirement homes in Poland and gerontechnology – research results”, Marcin Boruta points to new concepts and solutions covering various aspects of the lives of seniors, including housing. According to the author, numerous interdisciplinary challenges, projects and innovations are the basis for the emergence of gerontechnology – a new scientific research and implementation paradigm. This paradigm harmonises two trends that are key to modern societies: aging and digital development. The author says that using new technology may significantly improve the quality of life of older people and affect the efficiency and quality of services in long-term care facilities. In fact, solutions in the field of gerontechnology are an inseparable element of modern and innovative housing facilities for seniors.

Foreign experience shows that if the silver economy is considered a strategic field, threats may be seen as opportunities. Therefore, gerontechnology is an important element of the silver economy and, at the same time, it is one of the basic directions of improving the real estate market, including senior housing.

The conducted research indicated that the sector of private retirement homes uses technological solutions to improve the quality of life of residents and the

level of services provided. However, the catalogue of applied solutions is significantly limited. They are mainly used for supporting and monitoring health. Solutions for the automation and control of the home environment are used to a small extent, and solutions for the exchange of information and recreation – to a marginal extent. The significance of this subject matter is increased by the fact that one of the key postulates directed towards contemporary senior policy is to stimulate the growth of financial resources on research and development in the field of gerontechnology.

The next three chapters are devoted to the current issues concerning the severe effects of the anti-pandemic lockdown. In Chapter Seven – “The COVID-19 pandemic and the real estate market in Poland”, Maciej Koszel depicts the problem from the perspective of people dealing with the professional service of this market (brokerage, valuation, sale, investment). The author poses three research questions: 1) What is the current professional situation of people associated with the real estate market? 2) What is the general situation on the real estate market? 3) What are the prospects regarding the professional situation and the real estate market itself? Following the author, there is an ongoing discussion in this regard and there are no clear conclusions about both the current condition and the future of the real estate market. Thus, the results of the survey conducted by the author in the second quarter of 2020 seem to be of even greater importance. At that time (the period of the strictest restrictions) the situation worsened dramatically in a very short time compared to the last few years. The research sample included 247 people, representing mainly the professions of a real estate agent, real estate appraiser and real estate manager.

The analysis of the results shows that the respondents' assessments of the current general situation on the real estate market and their own professional situation are clearly pejorative. The author has definitely more doubts regarding the forecast for the next several months, as sceptical perceptions of the future prevailed among the respondents in the short-run, despite different assessments of the market development possibilities, the professional situation of the respondents and the situation in individual market segments.

It should be noted that the complexity of the real estate market itself, its high responsiveness to new factors and conditions, including, above all, the legislative changes and instruments of the so-called anti-crisis shield, created conditions of high uncertainty and dynamics. Hence, the author indicates the need to increase the frequency of assessments and the need for their cyclicity, as well as the use of qualitative research on the real estate market. In the author's opinion, the low level of involvement of entities (potential respondents) that may participate in this type of research seems to be a significant problem.

Anna Mazurczak, the author of the chapter entitled “The COVID-19 pandemic and the activity of real estate investment trust (REIT) entities on selected

real estate markets”, claims that global real estate markets have faced numerous challenges related to both residential and commercial real estate as well as mortgage loans. The number of transactions has decreased on the commercial and residential real estate markets. One of the participants of the real estate market (a market which has been a kind of an economic barometer for many years) are Real Estate Investment Trust (REIT) entities. It is a type of an investment fund or special purpose company (most often a joint stock company), investing mainly in profitable real estate and mortgage-backed securities. The manner in which the REIT investment entities have already responded to the COVID-19 pandemic, a phenomenon which destabilised markets and disrupted revenue streams in 2020, and the long-term impact of the pandemic on markets is the subject matter of numerous debates, including both the scientific level and the practical dimension.

According to Anna Mazurczak, it may be noticed that during the financial crisis of 2008 and at the beginning of the COVID-19 pandemic, there was a decline in REIT returns both in the US and in Europe. In the case of the pandemic, the largest drops in the rates of return were observed in March and April 2020. As a result of this extraordinary situation, REIT managers were forced to partially change their investment strategies, especially in the construction of the real estate portfolios. On the other hand, one of the most important long-term effects of the pandemic may be the increased interest of portfolio investors in new segments on the real estate market, including real estate related to data services and modern technologies, as well as infrastructure and industrial real estate. In the author’s opinion, thanks to REITs, these segments will be more accessible to a wider group of investors, including individual investors. These changes may be temporary or more permanent in the long run.

In the chapter entitled “The housing market in the era of COVID-19. A comparative study of Poznań and Varna”, Sławomir Palicki and Ivo Kostov make an attempt at analysing and evaluating the response of housing markets to the COVID-19 pandemic on the example of two cities in Central and Eastern Europe. Poznań and Varna are large, well-developed centres (in Poland and Bulgaria, respectively) that attract the attention of investors from various segments of the real estate market. What is common to both countries is the change in the house price indices in 2020 compared to 2018-2019. The conducted analysis is in line with the need to better understand the nature of the impact of an unexpected crisis on the participants of the housing market, which is the common and central axis of the real estate market development.

Compared to the trends from 2018-2019, there were clear drops in quarterly price indices in the first half of 2020 on the primary and secondary markets in Varna, and quite rapid increases in these indices already in the second half of 2020. This confirms the impact of the pandemic on the Varna housing mar-

ket as a strong, negative impulse, yet of limited durability. On the other hand, a sharp increase in the quarterly index was observed on the secondary market in Poznań at the beginning of 2020, followed by a marked decline in the subsequent quarters of 2020. In the authors' opinion, the price growth at the beginning of 2020 was so significant that the local market could no longer accept the changes. In the case of prices on the primary market in Poznań, stabilisation was noted; prices in 2020 remained at the price level of 2018-2019, despite the pandemic. It should be emphasised, however, that this occurred in the conditions of a sharp decline in the activity of this segment, which continued in the first half of 2020, measured by the number of concluded market transactions. The authors noticed an increase in the indices for the number of dwellings sold only in the second half of 2020.

This type of research aims not only to obtain knowledge about contemporary trends themselves, but also to support market entities in shaping optimised investment and housing decisions, which in turn are possible thanks to the knowledge of the similarities and differences between Bulgaria and Poland.

According to Sławomir Palicki and Ivo Kostov, the COVID-19 pandemic should be regarded as a significant negative impulse for the development of residential real estate markets in both the city of Poznań and the Varna metropolitan area. In fact, this impulse had a dramatic impact on the residential real estate markets. However, some market segments have shown great ability to quickly offset the adverse effects, leading to their suppression and return to the growth path already at the end of 2020. The tendency to effectively stabilise the situation was visible to the greatest extent on the primary housing market in Poznań and the secondary market in Varna.

In addition to the extraordinary impact of the pandemic, there are many factors that determine the perception of the value of housing on the real estate market, influencing its final price directly or indirectly. This issue is the subject of the next chapter – “Determinants causing the reduction of the value of residential real estate on the secondary market”. One of such factors is noise, which is frequently overlooked in real estate market analyses, being generally regarded as a phenomenon accompanying the proximity of transport infrastructure. As presented by Piotr Bartkowiak and Tomasz Nowacki, research on the dynamics of market phenomena, e.g. repeated price jumps, allows us to observe changes in the economic situation, e.g. increase or decrease in the price for 1 m² of living or usable space. On the other hand, the study of the interdependence of phenomena (correlation) allows us to determine the interrelationships between the phenomena (or their absence; e.g. the price of 1 m² of flat area in the context of the location in the zone of increased or high noise level). The research was inspired by the fact that norm-exceeding noise may become a factor that is extremely burdensome or harmful to mental and even

physical health. It has been shown that along with the increasing noise level, the price per 1 m² of the residential real estate area decreases, and vice versa – many properties located in places with low noise levels were characterised by a high price per 1 m².

As the authors notice in the study, all stages of market research are very important, since they shape the capital value of the real estate and affect the price of the service on the real estate market. Market analysis requires the researcher to take into account the expected market development as well as the changing economic situation, which is helpful in forecasting future conditions. Based on the available literature on the subject, it may be claimed that very little research has been carried out on the impact of noise on the price. Therefore, according to the authors, it is difficult to predict how noise levels may affect the future value of housing. Thus, it is problematic to identify the trend of such an impact. This may result from the fact that noise is perceived by recipients completely differently, depending on the preferences and expectations accompanying the purchase of a dwelling, when buyers are usually guided primarily by the corresponding location and their own financial possibilities.

“Methodology for comparing the values of residential real estate on the international market based on the Polish and US markets” is the subject of considerations made by the authors of the last chapter. According to Krzysztof Piasecki and Michał Stasiak, comparing only prices is a fundamentally wrong approach for a number of reasons, including among other things different purchasing powers and different levels of remuneration. The values of various real estate compared in terms of the size and quality of construction are influenced by factors related to the social development of a given country, such as education, healthcare or a sense of security. These factors affect the quality of life of the residents of a given real estate, and thus indirectly affect its value. Consequently, they should be treated as an intangible asset affecting the value of the real estate. The chapter proposes a methodology for comparing the value of residential real estate located in different countries. This methodology takes into account average prices, economic parameters (e.g. average salary, purchasing power parity) and factors describing the quality of the public sphere of a given country (e.g. education, health care, security). The proposed methodology assumes a comparison of the value of the premises for the end customer who will use it. Hence, the comparison does not take into account rent. In the case of an investor purchasing real estate for rental purposes, factors related to the comfort and quality of life are irrelevant.

The considerations presented in individual chapters of the monograph show that rationality in making market decisions on the residential real estate market by various groups of buyers should take into account even seemingly insignificant factors that may be important as determinants of the quality and

comfort of the dwelling and its usability. Undoubtedly, from the perspective of every client, as a given phenomenon becomes more and more burdensome, the awareness of its existence grows, and consequently, the satisfaction with the owned dwelling decreases.

In sum, this monograph may serve as a source of knowledge for economic theorists and practitioners, as well as an inspiration for discussions and further research on the directions of development of the real estate market.

Translated by Krzysztof Stec

See more in the monograph in Polish: Bartkowiak, P. (red.). (2022). *Tendencje rozwoju współczesnego rynku nieruchomości mieszkaniowych*. Poznań: Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu.
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