What’s behind the boom?

Changes in the Polish housing market

December 2021
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The real estate market is currently in a strong growth phase. The present market outlook should not be surprising to anyone due to the cyclical nature of the real estate market. Even though the external circumstances have changed compared to the past, the fundamentals of growth remain the same.

Kinga Barchoń
Partner Real Estate
PwC Poland
Although the current price rises may seem to be of record magnitude, a different picture emerges when viewed in comparison to the situation in Poland nearly 15 years ago…

- The real price of one m² in residential units (apartments) is now lower than in 2007 (allowing for salary increases over that period).
- The current pace of price growth (8-11% annually) is much more modest than the average rate seen in 2004-2007 (32% annually).
- The affordability of residential apartments in Poland is higher than in neighboring countries such as Czechia or Sweden.

* Warsaw, Gdańsk, Kraków, Wrocław, Poznań

Source: AMRON
The high pace of growth in nominal prices of residential units in recent years will not seem as high if compared to the pace of growth seen back in 2004-2007.

Historically, the high demand has invariably been driven by a continuing shortage of residential units, poor quality of the existing housing stock, low investor awareness and a lack of simple and relatively safe financial instruments. These factors, taken together and further compounded by record-low interest rates and rising inflation, make up a ready recipe for growth in housing prices. And yet, the price growth in the main agglomerations is considerably lower today than the skyrocketing prices of 2004-2007.

While prices slumped in 2008-2012, they never returned to the 2004-2005 levels.

The upward trend of the last 9 years continued in 2021 through the first 3 quarters. Since the end of 2020, transaction prices in 5 largest cities have gone up by 10%.

### Average price of residential m² in 5 largest cities*

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>3 184 PLN</td>
</tr>
<tr>
<td>2007</td>
<td>7 262 PLN</td>
</tr>
<tr>
<td>2017</td>
<td>6 438 PLN</td>
</tr>
<tr>
<td>2020</td>
<td>8 119 PLN</td>
</tr>
</tbody>
</table>

* Warsaw, Gdańsk, Kraków, Wrocław, Poznań

Source: AMRON
Warsaw still remains the city where prices are highest, although Gdańsk has outpaced it as regards the pace of price growth.

Residential property prices in Poland have reached unprecedented levels in nominal terms. Prices of PLN 10k or more per square meter for residential units in prime locations are not exceptional, not only in Warsaw but more and more frequently also in Gdańsk, Kraków and other regional cities. However, if these values are compared against the rates of price growth seen 15 years ago, the present boom and the pace of price growth do not seem that great. Starting from 2013, the prices of residential units have been constantly on the rise, although a steep increase was not observed until 2017. To offer an unbiased view on whether housing units are as highly priced as believed by the general public, we need to consider a whole gamut of factors – salary increases being the major one, as they are reflected in the purchasing power of consumers.

### Growth in transaction prices per residential m² on the primary market in 5 largest cities

<table>
<thead>
<tr>
<th></th>
<th>Warsaw</th>
<th>Kraków</th>
<th>Gdańsk</th>
<th>Wrocław</th>
<th>Poznań</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-2020</td>
<td>28%</td>
<td>24%</td>
<td>35%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>2004-2007</td>
<td>112%</td>
<td>129%</td>
<td>148%</td>
<td>127%</td>
<td>132%</td>
</tr>
</tbody>
</table>

Source: AMRON

### Average transaction price per m² of residential unit on the primary market

Source: Statistics Poland (GUS), NBP, AMRON
Salaries in recent years have grown by 7% year on year, bringing Poland closer to the EU average.

Average monthly salary in 5 largest cities

<table>
<thead>
<tr>
<th>Year</th>
<th>City</th>
<th>Average Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Poland</td>
<td>2,765 PLN</td>
</tr>
<tr>
<td>2007</td>
<td>Belgium</td>
<td>3,354 PLN</td>
</tr>
</tbody>
</table>

Source: Statistics Poland (GUS), NBP, AMRON

For the past 15 years, salaries in Poland have increased on average by 5% annually, meaning that the purchasing power of Poles has been constantly on the rise.

Even though Poland is still lagging behind the leading European economies, it has significantly closed the gap to the EU average.

Average monthly net salary in Poland compared to selected EU countries (EUR, 2020)

<table>
<thead>
<tr>
<th>Country</th>
<th>Salary (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>2,789</td>
</tr>
<tr>
<td>Germany</td>
<td>2,652</td>
</tr>
<tr>
<td>EU</td>
<td>1,951</td>
</tr>
<tr>
<td>Czechia</td>
<td>867</td>
</tr>
</tbody>
</table>

Source: Statistics Poland (GUS), NBP, AMRON, Eurostat
Despite the rising prices, significant salary increases have boosted the buying potential of Poles

How many average salaries does it take to buy 1 m² of residential unit?

![Graph showing the purchase of residential units with average salaries in various cities from 2004 to 2020.](image)

Source: AMRON

The rapid price increases in 2004-2007 were not correlated with salary growth. As a consequence, in 2007, buying 1 residential m² on average required more than 2 monthly salaries. In that regard, Kraków led the pack, with 2.67 average salaries earned there needed to buy 1 m² of a residential unit.

Currently, 1.2 salaries will buy 1 m² in Poland’s 5 largest cities. Warsaw shows the widest disproportion: the city’s average salary will suffice to buy a mere 0.71 m² of a residential unit.*

* As at 30.06.2021

Salary increases in 5 largest cities

<table>
<thead>
<tr>
<th></th>
<th>Warsaw</th>
<th>Kraków</th>
<th>Gdańsk</th>
<th>Wrocław</th>
<th>Poznań</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-2007</td>
<td>18%</td>
<td>23%</td>
<td>25%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>2017-2020</td>
<td>18%</td>
<td>31%</td>
<td>22%</td>
<td>21%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: Statistics Poland (GUS), NBP, AMRON
The factors driving the surge in prices 15 years ago are still in play today

- Growing costs of land purchase
- Sustained low interest rates
- Rising salaries earned by Poles
- Increasing construction costs (both labor and materials)
- Perception of residential units as a safe investment
- Speculation purchases of residential units by individual investors
- High inflation
- Limited supply of attractive land in cities
- Housing gap in Poland
- Lengthy administrative proceedings which curb supply
- Low number of zoning plans for cities
- Suspended sales of state-owned land
- Low confidence in the rental market

These factors even further fueled demand for housing. At the same time, the market lacked significant stabilizing factors such as: release of state-owned land for sale, the adoption of REIT-related legislation, introduction of a mass scheme promoting social housing projects, or adopting laws to regulate housing market speculation.
2. Poland’s housing market from the onset of the transition to the present day

- **1989**: Transition to a market economy, including in the residential market
- **1990s**: First big property developers appear on the market
- **2004-2007**: First rapid boom on the housing market
- **2011**: The “Property Developers’ Act” comes into force
- **2012**: Price slump in the wake of the 2008 financial crisis
- **2015**: Boom in the residential market begins
- **2020/2021**: Large pools of units bought by investors operating in the institutional rental sector
- **2021**: The “Property Developer Guarantee Fund” is established
- **2Q 2020**: Outbreak of the Covid-19 pandemic, short-term drop in prices
Over 3.5 million residential units and homes have been built in Poland since the 1990s (henceforth referred to as “residential units”, or collectively as the “housing stock”), whilst Poland’s population declined from 38 609 399 (1995) to 38 265 013 (2020).

In parallel, despite the explosive growth seen in the residential development market, there is a continuing acute shortage of units. The shortfall is currently estimated at 2.2 million units and is counted as the product of Poland’s population multiplied by the ratio between the EU average and Poland’s average number of residential units per person.

Compared to Western European countries, Poland’s housing market (the “free market”) has a relatively short history. It can be said, therefore, that it has not as yet completed a full business cycle.

A modern and burgeoning housing market could only emerge following the economic transition in the 1990s, once inflation was reined in and banking products were introduced (such as mortgage loans, which were offered on a broader scale post 1998), enabling a large portion of the public to buy their own apartment.

This short developmental trajectory did involve certain periods of boom (2004-2007) and bust (2009-2012), when the housing prices first rose by 100%, to plummet as a consequence of the global property market crisis. It took 10 years for the prices of residential units in Poland to rebound. Today, we can safely say that we are experiencing another boom, which started in 2015. Even though the prices have temporarily stagnated due to the Covid-19 pandemic and the uncertainty it has created, we can see that prices, after declining only in Q2 2020, have more than bounced back.

**Increase in the value per m² of primary market residential units compared to values of the WSE index in the past 10 years**

![Graph showing the increase in the value per m² of primary market residential units compared to values of the WSE index in the past 10 years](chart)

*Source: Statistics Poland (GUS), NBP, stooq.pl*
The increasingly professional rental market may drum up interest in rentals among the Polish public

The 2008 financial crisis not only caused a slump in the housing prices, but also revealed the need for a deeper regulation of the sector to provide greater protection for buyers. The 2011 so-called new “Property Developer Act” aimed to introduce more stringent market regulations and safeguards for individuals buying residential units while they were still under construction.

The major changes introduced by the Act included the need to maintain obligatory escrow accounts for specific projects, with the buyers’ monies being paid out to developers after completion of specific stages of the construction works; standardized prospectuses required for housing projects, and mandatory preliminary, notarized developers’ agreements required for property purchases.

Another, very recent change was the establishment of the Property Developer Guarantee Fund, set up in July 2021 under the new Property Developer Act of May 2021, aiming to protect the monies of residential buyers in the event of a developer’s insolvency. The Fund’s monies are contributed by developers who are obliged to deposit with the Fund a portion of the units’ sale price (in an amount dependent on the type of the escrow account maintained for a given project).

A distinguishing feature of the Polish market is its fragmentation. Poland’s number-one developer, Dom Development, delivered 3 006 units last year (2020), which accounts for as little as 1.3% of all new units turned over during that year.

The good economic climate and the favorable situation on the property market led to market revival and initial consolidation, which is expected to continue in the future. Examples include Echo Investment, a developer which bought a majority stake in the listed company Archicom, and Dom Development, which expanded to the Kraków market through the acquisition of the local developer, Sento.

There has also been palpable interest in the Polish housing market manifested by foreign investors, expressed in the form of purchases of both individual developers and complete portfolios of units for rental purposes. Although the first transactions of the latter type took place in 2016 (purchase of the whole building at Pereca 11 Street in Warsaw by Bouwfunds), the acquisition of the Polish developer, Vantage Development, by the German TAG IMMOBILIEN fund for build-to-rent purposes has been one of the largest-scale transactions of this kind.

Largest-scale transactions on the institutional rental market (PRS – Private Rented Sector)

- Spravia: 2,500 units
- YIT: 1,071 units
- Marvipol: 647 units
- Eiffage: 640 units

Source: Statistics Poland (GUS), Journal of Laws, PwC Analyzes
3. Key factors affecting the housing market in Poland
High inflation, coupled with record-low interest rates, have given rise to a red-hot market for housing investment

- The record-low interest rates between March 2020 and October 2021 added more fuel to the already heated market, mainly via mortgage and investment channels.
- The doubling of the interest rate level in October and November 2021 is likely to reduce demand (e.g. due to lower creditworthiness).
- However, the increase may prove insufficient to cool down the heated market.
- Despite the recent increases, the interest rates remain at a very low level, close to the pre-pandemic figures.

- The high level of inflation, above the National Bank of Poland’s inflation target, bolsters investment demand for residential units, which continue to be perceived as a safe and attractive way to invest savings.
- High inflation has a bearing on both the demand and the supply side of the housing market. Pressure on wages in construction companies and rising prices of building materials further increase the already high construction costs.
Poland is now in a very distinctive economic situation. The pandemic crisis continues, yet economic growth is visibly accelerating. This unusual situation has necessitated an unusual monetary policy: very low interest rates kept in place despite the rising inflation. For some Poles, cheap bank loans and quite good prospects for better earnings mean an opportunity to buy their own apartment. For others, this will be an opportunity to move their savings out of loss-making bank deposits and into more and more expensive residential units. Unfortunately, the rising inflation is now a serious problem, and these initial interest rate increases will most probably be followed by new ones.
Despite the negative responses accompanying the adoption of the Special Housing Act, the new legislation brings benefits to property developers, cities and their residents alike.

- High demand in the housing development sector quickly led to a limited availability of land, especially in attractive locations. Those developers who built up their stock of land in the past have gained an upper hand in that regard.
- The more and more difficult access to land with a clear-cut legal situation forces investors to look for alternatives in post-industrial areas or seek changes in the zoning plans on the basis of the Special Housing Act (also known as “Lex Developer”); several such examples have recently been seen in Warsaw.

To date, only 3 projects in Warsaw have obtained permission to change the zoning plan under the “Lex Developer” provisions. Since a model course of action under this procedure needed to be worked out between the city’s authorities and the stakeholders, all these housing projects required more than one approach to the process. Consultations with the stakeholders such as the local communities and the perceived value of a given project for the city or district are the key factors in the procedure. In the case of the project run by Echo Investment, this was a school for 400 pupils, whereas Grupo Lar made a commitment to earmark some of the space for public interest purposes. The agreements reached with the investors make it possible to look to the future with optimism. The pattern of such projects can be viewed as a win-win situation: investors gain access to land with the approval of the city's authorities and local residents, and the city is provided with new infrastructure without having to spend public funds.

Last year we witnessed 3 factors which in effect limited the housing supply: administrative processes became considerably longer due to Covid restrictions; the supply of land for buyers was diminished, while the slow pace of the planning processes was maintained. Some developers are invoking the “Lex Developer” regulations to get their projects going. This act opens up possibilities for the local and relatively fast addressing of such issues as centrally located, out-of-service tracks, manufacturing plants or other post-industrial properties. With full cooperation from the local communities, this can be achieved.
Increased costs of materials and a workforce shortage on the market have led to a spike in construction costs

### Construction costs

**Impact**
- An increase in costs due to increasing prices of energy and building materials can recently be observed, which considerably affects estimated returns on investment in the developers’ sector.
- It is estimated that the average construction cost per m² of usable residential floorspace (PUM) rose by about 20% in the past 3 years.

### Earnings /Salaries

**Impact**
- Rapid salary growth has been observed in Poland in recent years.
- Increased salaries in the economy are reflected in buyers’ better creditworthiness, which may translate into rising demand for new residential units.

### Administrative and legal changes

**Impact**
- The introduction of obligatory contributions to the Property Developer Guarantee Fund.
- The introduction of mortgage guarantees for families with at least two children and for houses up to 70 m² which do not require planning permissions.
- Changes in taxation, in particular the inability to write off depreciation of residential units combined with more favorable tax settlement rules for rental may reduce the profitability of residential purchases, and in effect drive down the demand.
- The considerable prolongation of the process for obtaining administrative permits and permissions.
The challenges that the construction sector faced in 2021 included increasing prices and greater scarcity of building materials, pressure for higher wages from employees, and access to workforce and subcontractors’ services. Therefore, the prices of general contracting had to be adjusted accordingly. At Unibep, we are constantly monitoring the prices of materials and services which have increased in the recent months and how they affect individual construction projects. Our main clients are private investors, with whom we discuss the rising costs, and we take effective steps for the associated compensation associated. It has to be admitted, however, that the market is unstable and we can hardly expect the prices of materials and services to decline in the nearest future.
Poles still perceive real estate properties as an excellent form of investment

<table>
<thead>
<tr>
<th>Most profitable forms of investment as viewed by Poles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real property</td>
</tr>
<tr>
<td>Precious metals</td>
</tr>
<tr>
<td>Works of art</td>
</tr>
<tr>
<td>Stocks</td>
</tr>
<tr>
<td>Bonds</td>
</tr>
<tr>
<td>Cryptocurrencies</td>
</tr>
<tr>
<td>Foreign currencies</td>
</tr>
<tr>
<td>Investment funds</td>
</tr>
</tbody>
</table>

Source: Assaygroup, 08.2021, “Wskaźniki gotowości inwestycyjnej Polaków” [Investment Readiness of Poles – Indices], maximum 3 answers, sample of 1124

Due to the relatively young age of Poland’s free-market economy traditions, coupled with low investment awareness of Poles, the housing market is perceived by many as the preferred and extremely safe form of capital investment. For many, it is also an investment whose function nowadays is first and foremost to provide protection against inflation.
The housing market is only one of the segments of the property market. At the other end of the spectrum there is the commercial property market with huge, multimillion-euro projects which are beyond the reach of an average investor. Western Europe has long made use of special investment vehicles which invest in real estate properties, so-called REITs (Real Estate Investment Trust).

Despite 3 bills having been submitted, no act on Polish REITs has yet been passed by the parliament. If investors were able to purchase commercial properties, the investment capital might shift from residential to commercial space, thus possibly helping prices to stabilize.

**Advantages of REIT investment:**

- Relatively small amounts can be invested
- Property market diversification
- Low management costs and a high level of professionalization
- Low risk profile
- Dividend regularly paid out from rent
- Long-term rental contracts, securing cash flows
The housing supply gap could be alleviated by the construction of new residential units or by demographic factors

- Poland’s ageing population and the record-low percentage of young people transitioning into adulthood may drive down demand for new housing.
- In recent years, the labor market has coped with these shortages through immigration, mainly from the East.
- External immigration, possible returns of Poles from abroad, and influx of the population to larger cities should sustain the demand in the medium term.

The housing shortfall in Poland is estimated at about 2.2 million units.

One solution to fill this gap could be to open up the possibility for housing funds to build residential units slated for long-term rental on land zoned for services.
Andrzej Oślizło  
President of the Management Board, Develia S.A.

One of the greatest risks that the market is currently facing is the widening supply gap in Poland’s largest cities. As a result of huge housing needs, additionally exacerbated by hoarding-related demand, we are seeing record-small offerings for sale on the 6 largest markets, and the sell-out index for residential units (the time it would take to sell off the current offerings if there were no new supply) is about 2 quarters. Widespread problems with land and an insufficient number of planning permissions being issued provide little ground for optimism, and the market situation cannot be expected to improve any time soon.

Planning permissions issued per quarter

Source: Statistics Poland (GUS)
Rising housing prices have been driven mainly by the rising cost of land.

The internal structure of the price per square meter of residential units in Warsaw has not changed much during the 2008 boom, the slump through 2012, or the current boom (based on the situation in Q2 2021).

The most significant change has been the increasing share of land in the price per square meter of residential units. The diminishing accessibility of plots for housing development is contributing to the rising prices. In such prestigious districts of Warsaw as Powiśle, Mokotów or Śródmieście, the average plot price per m² of usable residential floorspace (PUM) is in excess of PLN 5,000. Despite the rising prices, developer’s margins remain stable. The continuing high demand is balanced out by intense competition on the market.

In 2011, VAT increased from 7% to 8% of the net property price. Consequently, its share in the gross price is now higher, at 7.4%.

The rising costs of construction and materials, and the limited pool of land, have so far been offset by the rising housing prices. Once this is no longer possible, developers will have to bring their margins down.

Source: NBP
4. The housing market in Poland and selected EU countries
In comparison to selected European Union countries, Poles generally live in small, cramped apartments

<table>
<thead>
<tr>
<th></th>
<th>Poland</th>
<th>Germany</th>
<th>Czechia</th>
<th>Sweden</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of residential units per 1000 inhabitants in 2020</td>
<td>393</td>
<td>515</td>
<td>468</td>
<td>487</td>
<td>491</td>
</tr>
<tr>
<td>Average number of persons per unit in 2020</td>
<td>2,8</td>
<td>2</td>
<td>2,3</td>
<td>2</td>
<td>2,3</td>
</tr>
<tr>
<td>Average floorspace per resident in 2020</td>
<td>29,3 m²</td>
<td>45,56 m²</td>
<td>40,63 m²</td>
<td>42,09 m²</td>
<td>42,56 m²</td>
</tr>
<tr>
<td>% of the population renting a unit in 2020 (change since 2010)</td>
<td>14,4% (-4,3 p.p.)</td>
<td>49,6% (+3,8 p.p.)</td>
<td>21,1% (+1,2 p.p.)</td>
<td>35,5% (+2,8 p.p.)</td>
<td>30,2%* (+0,9%)</td>
</tr>
</tbody>
</table>

Source: Statistics Poland (GUS), AMRON, Czech Statistical Office, German Federal Statistical Office, Statistics Sweden, EUROSTAT, *Date for 2019

Western European countries have much larger housing stock, and apartments with much more floorspace. Poland’s neighbors to the north, south and west also show a much greater propensity to rent apartments. The expanding market, increasing supply and growing affluence of the society should, in the long term, bring Poland’s indices closer to the European average.

Compared to Europe, Poles have always wanted, and still want, to own their apartments. Perhaps the new generations entering adulthood will manifest a preference for rental rather than ownership, but such a tendency is not well visible, as it is for Poland’s neighbors.

We’ve seen a steep growth in demand and prices on the Czech residential market during the last year. This trend continued even throughout the COVID pandemic. The prices on the residential real estate market continued increasing in 2020 and the first half of 2021 (the average prices in the first half of 2021 were 67% higher compared to 2015). The increase was caused by a combination of limited supply and strong demand, supported by very low interest rates on mortgages.

Richard Jones
Director,
PwC RE Czechia
Housing prices in Poland are low when compared to the neighboring countries

Compared to these countries, Poland has a healthy ratio of average monthly salary to housing prices. The figure for Czechia is inflated due to exorbitant prices in Prague, which is the dominant property market in that country. Due to the decentralization of the German economy, historical considerations and persisting disparities between eastern and western Germany, residential prices in Berlin are at an affordable level, unlike e.g. in Munich. In comparison to the other capital cities, the residential prices in Warsaw are relatively low. Poland’s capital city, with its invariably strong internal demand, low unemployment and favorable prospects for growth, can be viewed as an interesting market for foreign investors, especially those investing in the build-to-rent sector (PRS).

The German real estate market and especially the residential market is currently on a very positive level regarding purchase prices and multiples. Berlin is the largest real estate market in Germany. Approx. 8.5 M sq m residential lettable area is under development as of 2021, more than Frankfurt and Munich combined. The demand for Germany A-cities properties continues to outweigh supply. Approx. 24 M sq m residential lettable areas are under development as at 2021 in German A-cities, of which Berlin holds the largest share with approx. 36% / 8.5 M. Until 2030, approx. 194,000 new units will be needed e.g. in Berlin to satisfy population growth, but current forecasts estimate only 130,000 units will be constructed in the same period.
5. Property market outlook – what lies ahead?

**Prices**

The prices have risen by just 12% over the maximum levels reached during the previous boom. The growth rate has accelerated in recent years, to reach 10% during the past 12 months. However, the price increases may have been caused by fundamental changes brought about by the rising costs and bear little resemblance to the spike in demand and speculation that occurred over a decade ago.

A comparison of the housing prices in Poland and in Western European countries, particularly those in large cities, suggests that the residential prices in Poland will gradually rise and draw closer to Western European levels.

**Salaries**

The average monthly salary in Poland nearly doubled between 2007 and 2020 (an average of 5% growth per year), whereas in the past 3 years salaries have gone up about 7% per year, i.e. at a rate comparable to the growth seen in residential prices. The housing prices, by comparison, went up by a mere 12% between 2007 and 2020 (including the slump of 2009-2012). This means that the real price per m² of residential space is now lower than in 2007.
Inflation and interest rates
High inflation and record-low interest rates in recent years have bolstered investment demand and stimulated the mortgage lending market. However, a steep increase of interest rates by the central bank could stifle the residential market. The changes proposed in the “Polish Deal” package may also encourage consumer demand at the expense of investment demand.

Rental
The development of the PRS sector could help reduce the housing gap and encourage Poles to rent apartments rather than buy their own. However, the current supply of units owned by institutional investors is scanty and limited to the largest cities, and therefore has no real impact on the housing gap.

Demand
The structure of the housing stock in Poland and the existing supply gap will drive substantial demand in that market segment for many years to come.

Lack of opportunities to invest in commercial property in the REIT format will continue to fuel the demand for investment in residential properties. However, the looming changes in legislation or taxation may strongly affect the profitability of residential market investments.