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# INDUSTRIES AND SECTORS: ISSUES AND POLICIES

## **TENDENCIES OF REAL ESTATE MARKET DEVELOPMENT IN THE CURRENT CONTEXT (IN TERMS OF POLAND AND UKRAINE)**

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**JEL Classifications:** G01, L85

**Key words:** Real estate market, crisis, effect, outcomes.

**Abstract:** The article discusses the category “real estate market” and author’s treatment is suggested. Based on own approach, the authors approach to national real estate market in Poland and Ukraine, and the key tendencies of their development in the current context are shown.

**ISSN:** 1804-0527 (online) 1804-0519 (print)

Vol.8 (2), PP. 17-22

### **Introduction**

Real estate market is essential component of any national economy as real estate is the most important part of national wealth which share is more than 50 per cent of the world wealth. Market system efficient functioning is impossible without real estate market since it is the basis for functioning labour market, financial market, commodity market, services market, etc. Besides, it creates prerequisites for entrepreneurship; consumption, savings and investment greatly depend on it. That is why, for a long time it has been a subject matter as well as a subject of scholarly disputes for leading figures of scientific schools in many countries. Today both theoreticians and practitioners pay more attention to real estate market; in this context it is very topically and advisably to specify “real estate market” category, to analyze the current state of real estate market, and to identify its development tendencies.

### **Essentiality of “real estate market” category**

Critical analysis and generalization of the key scientific approaches as for “real estate market” category understanding help to conclude that unified version of the idea is not available, and to define several groups of viewpoints of it.

Authors of the first group believe that availability of transactions is the main feature of real estate market. Accordingly, it is a complex of agreements, made on real estate, their information support as well as operations concerning running and financing activities in real estate field (Esipov, 1998; Krutik, 2000). Some authors see real estate market as a field of various real estate purchase and sale. At the same time they suppose that is not just purchase and sale of long-lived goods; it is profitable flow of funds too (Belykh, 1999).

The second group of authors beholds idea of real estate market more broadly, particularly as a system of relations (mechanisms). From the viewpoint some authors classify the market as a field of capital investment in real estate units, and a system of economic relations originating during real estate activities (Shcherbakova, 2002). Others consider real estate market as a particular set of mechanisms with the help of which rights to real estate as well as interests connected with it are transferred, prices are determined, and space is distributed among different competitive variants of use of land (Freedman, 1995). It should be noted that just from the viewpoint of system of relations both foreign authors and International Standards of real estate appraisals consider real estate market (Irwin, 1993; Van der Schaaf Pity, 2002; International Standards, 1995): “The market is a system in which goods and services are transferred from sellers to buyers with the help of pricing mechanism. The market concept suggests ability of goods and/or services to circulate without unnecessary limitations of seller and buyer activities. Each of concerned parties acts in accordance with supply-and-demand situation, with other pricing factors within own possibilities and competence, within understanding comparative utility of specific goods/services and taking into account own individual needs and wants”.

Finally, the third group of authors considers right to real estate unit as the major feature of real estate market: “Real estate market is a segment of common market connected with circulation of rights to real estate units” (Novikov, 2000).

The mentioned approaches to understanding definition of “real estate market” show that they are based on individual features of real estate: availability of transactions, mechanism of interaction, ownership right. Moreover, it should be noted that modern real estate market can be defined by individual features and more common entity characteristics connected with features of real estate

as socioeconomic fact. In this context it is more expedient to consider real estate and real estate market from the viewpoint of geographic, economic, juridical, and social concepts (Lebed, Mendrul, Lartsev et al., 2002).

Thus, geographic concept mirrors physical (technical) properties of real estate: design of building, its material, dimensions, location, climate, environment, and other parameters. Each real estate unit is influenced by physical, chemical, biological, industrial, and other factors. As a result, their consumer properties and functional suitability vary, and it should be taken into account while transactioning. Economic concept considers real estate as investment and a tool of income acquisition. With it such major economic components of real estate as cost and price originate resulting from its property to meet different demands. Juridical concept considers real estate as collection of rights sharing depending on its physical characteristics. And social role of real estate is to meet physiological, psychological, intellectual and other human demands. After all, land gives human all necessary things for survival and dignified life.

On this basis real estate market should be considered as a system of relations between seller and buyer connected both with production of new real estate units and with circulation and exploitation of available ones acting on the basis of pricing mechanism taking into account geographic, economic, juridical, and social features of real estate units.

Besides, real estate market is infrastructural category. That is it creates conditions for productive activities, commercial activities, social activities, environmental activities etc. At the same time real estate market relies heavily on economic situation. If it is poor then real estate market cannot function in a proper way. Situation in the real estate market is good when economy is steady. That's why one can suppose that the market is a mirror of economic situation. Current state of affairs confirms the conclusion. As it is known, real estate market became both the reason of economic crisis, and fell under its incomparable deep influence. It is the last one to recover.

### Real estate in Ukraine

Today we may say that Ukrainian crisis turned out to be the most severe both at the territory of CIS, and in Central and Eastern Europe. As studies show, it depended on both problems of precritical development, and structural disbalances which were accumulating in the country during long period of time, and non-availability of clean scheme of reforms. Unfortunately, antirecession policy was not helpful either. It goes without saying that the problems could not help influencing Ukrainian real estate market still staying under conditions of deep slackness. Moreover, situation with it is next to unpredictable. Real estate operations are quite rare. New buildings are not let, many construction projects are either blocked or pretermited (Table 1).

TABLE 1. NUMBER OF INCOMPLETED CONSTRUCTION PROJECTS ON 01.01.2010

	Total, units	Including those which construction:					
		Performed		Pretermited		Blocked	
		Amount of objects	Percentage to total	Amount of objects	Percentage to total	Amount of objects	Percentage to total
Buildings, total	13018	4490	34.5	8104	62.2	424	3.3
Residential	4356	1462	33.5	2804	64.4	90	2.1
Non-residential	8662	3028	35.0	5300	61.2	334	3.8
Engineer Constructions	5959	2371	39.8	3494	58.6	94	1.6

Source: www.ukrstat.gov.ua

As statistics show, more than fourth part (2284 objects or 26.4%) of objects or total of uncompleted non-residential buildings are social facilities. Among them you can find 599 educational establishments, 248 preschool establishments, 275 hospitals, 240 health clinics, social facilities and consultations, 90 sanatoria, preventoria, and centers of functional diagnostics.

Huge volumes of pretermited and blocked construction can be explained by the fact that recently many developers and investors have engrossed with large-scale projects which financing required attraction of financial resources from external sources, particularly bank credits. As such fund raising was impossible the construction of many projects was blocked, especially those in the initial phases. Under such conditions some developers try to solve the problem in dividing projects into split project on single phases, and

gradual commissioning of a facility. Others are concentrated on those projects which completion requires relatively small money supply.

It should be noted that in 2009 government was planning to appropriate UAH 3bln to complete construction of pretermited or blocked projects. But to receive government grant the three requirements should be met. First, readiness condition of incompleted project should not be less than 70%. Second, Ministry of Regional Construction set price limit for square metre: no more than UAH 8000 for a capital, UAH 6000 for regional centers, and UAH 5 000 for other towns. Third, state grants only those companies where budgeted value of construction put in place is not less than amount received by builders from private investors. Unfortunately, the plan was not brought to life. National Bank of Ukraine did not go to the expense of construction completion explaining it by considerable deposit outflow from

banking sector under the conditions of crisis (Kuibida, 2009).

As to residential real estate segment, its volumes decreased in 2009 greatly (6 400 000 m<sup>2</sup>). A great number of projects are blocked. Previous data show that level of 2009 was lower than level of 2000 (5 558 000 m<sup>2</sup>) (Rybak, 2010). However final calculations confirm that actually level is not lower than in (6 433 000 m<sup>2</sup>) (Table 2).

Shrinkage of setting into operation of real estate units can be explained by residential construction significant disinvestment (Table 3).

It should be noted that economic crisis favoured the fact that many participants of Ukrainian real estate market shifted their opinion towards real estate - it lost its investment attractiveness. One can say that reappraisal of values took place, and essential point of economists and realtors was annihilated (the best thing is to invest real estate as prices for it are always rising).

Poor returns of individuals as well as mortgage lending stop results in a fact that millions of Ukrainians cannot solve their housing problem.

TABLE 2. SETTING INTO OPERATION OF OVERALL RESIDENTIAL AREA

	1990	1995	2000	2002	2003	2004	2005	2006	2007	2008	2009
Total overall area, thousand m <sup>2</sup>	17477	8663	5558	6073	6433	7566	7816	8628	10244	10496	6400
In towns and cities	14024	6456	4329	4858	5074	5739	6088	6709	7737	7640	5163
In rural zones	3423	2207	1229	1215	1359	1827	1728	1919	2507	2856	1237

Source: www.ukrstat.gov.ua

TABLE 3. RESIDENTIAL CONSTRUCTION INVESTMENT

Year	Actual Prices, UAH mln	%, to Previous Year	%, to fixed investment total
2000	3404	106.0	14.4
2001	4132	101.0	12.7
2002	4729	111.6	12.7
2003	6190	125.8	12.1
2004	8762	117.9	11.6
2005	12017	108.9	12.9
2006	18581	127.5	14.8
2007	30343	131.4	16.1
2008	35533	88.1	15.2
2009	18052	45.6	11.9

Source: Ovdenko (Ed.), 2010. Residential construction in Ukraine in 2000-2009, Kyiv: State Committee of Statistics of Ukraine.

Poor returns of individuals as well as mortgage lending stop results in a fact that millions of Ukrainians can not solve their housing problem.

For example, about 100 banks granted home loans in 2008. Their number reduced to 10-12 in 2009. On the one hand, banks are short of financial resources. On the other hand, heavy annual percentage (20-25%), down payment equal to 40-50% of loan value (in some cases it is another real estate unit as a collateral), and shortened crediting period (10-15 years instead of 20) make people just give up on chance of buying residence by means of mortgage lending. Besides, official incomes of client are the key argument to obtain credit. That is those few Ukrainian banks which did not tie up mortgages created unreal conditions to use them for buying residence.

Unfortunately, Law of Ukraine "On prevention of global financial crisis impact on development of construction industry and residential construction" which stipulates group of actions aimed at state improvement of construction industry of Ukraine, securing housing rights of individuals, requiring national backing, and stimulating residential construction under the crisis conditions is not in force. It depends on imperfection and/or non-

availability of other regulations necessary for the Law implementation (Rybak, 2010).

Today situation is very complicated within commercial property segment. First of all, it concerns retail property. About 300 shopping centers with total 2.7 mln m<sup>2</sup> lease area are in Ukraine (Market of retail property of Ukraine).

It should be noted that beside purchase and sale, lease is common action within the segment. Before crisis the demand has been out of proportion to the supply of adequate areas. Today situation is opposite: market can not fully merge available supply. Plus to known crisis impacts common for all segments of real estate market, specific impacts typical for the segment ones occur. For instance, lessee and lessor are not the only participants in the market. One more player is added who influences the market progress to some extent. We mean client expending own money in shops located within leased areas. Depreciation of hryvnia, and as a result appreciation of imported products, significant drop in individual incomings, mass dismissals, contraction of consumer crediting as well as lack of sense of security result in cuts in expenditures to buy different goods. That is nation spends far less reorienting own expenditures towards cheaper goods, and primary commodities. These very

reasons led to severe fall of demand for shopping premises, and market rebalancing. Despite rent decrease precise data concerning level of decrease are not available. Its value depends on many factors: shopping center success, region or town, place within inhabited locality, available contract terms, willingness of lessor to make concessions etc. Cases are known today when lessors are ready to prolong lease for continuing lessees only on conditions that they pay for business costs, and will stay in the premises.

Nearly the same situation is in office real estate segment. Despite lease rates reduction demand is out of proportion to the supply. The key tendencies of office real estate are (Development of Real Estate Market in 2000-2009):

- increase in number of square meters of vacant areas in business centers;
- migration of lessees into smaller and cheaper offices;
- cancellation of lessees to lease some part of office, or to find under-lessees (in some cases they lease up to 80% of own office);
- finishing activities of many foreign agencies, closing down their offices, etc.

It should be noted that the tendencies have been formed against the background of collapse practically in all industries of Ukraine, and nothing

is changed. The situation confirms it again that real estate market not only creates conditions for economy functioning but depends heavily on it.

### Real estate market in Poland

For the first time Republic of Poland entered the six of the largest economies of European Union. Such a jump became possible thanks to the fact that Poland was the only country of European Union which kept economic growth during crisis. Important role in it was played by rather efficient structural reforms which helped to improve considerably competitiveness of the country economy. In turn, it favoured inflowing huge direct foreign investment in Polish economy. For instance, in 2006 Poland got €15,7bln, €16,7bln in 2007, €12,1bln in 2008, and €8,6bln in 2009 (Ministry of Treasury). Together with anti-recessionary events it helped to alleviate negative consequences of the world recession.

However, despite the measures crisis affected Polish economy as well as its real estate market though less to compare with in other countries. First of all, it impacted on construction volumes (Table 4).

TABLE 4. QUANTITIES OF BUILDINGS PUT INTO COMMISSION IN 2009

Types of buildings	Total		Urban areas		Rural areas	
	buildings	cubic volume in m <sup>3</sup>	buildings	cubic volume in m <sup>3</sup>	buildings	cubic volume in m <sup>3</sup>
Total	91421	165079676	36476	98965157	54945	66114519
Residential buildings	71472	76946429	26510	45009647	44962	31936788
Non-residential buildings	19949	88133247	9966	53955516	9983	34177731

Source: www.stat.gov.pl

TABLE 5. QUANTITIES OF COMMERCIAL REAL ESTATE PUT INTO COMMISSION IN 2009

	Office buildings			Hotels and similar buildings			Wholesale and retail trade buildings		
	number	cubic volume in m <sup>3</sup>	usable floor space in m <sup>2</sup>	number	cubic volume in m <sup>3</sup>	usable floor space in m <sup>2</sup>	number	cubic volume in m <sup>3</sup>	usable floor space in m <sup>2</sup>
Total	586	4382569	929119	622	2149107	491915	3822	18853130	3179837
Urban areas	395	3562359	779418	179	1166737	273403	2795	15502389	2682741
Rural areas	191	820210	149701	443	982370	218512	1027	3350741	497096

Source: www.stat.gov.pl

Thus, 91421 new buildings were put into commission in 2009. Unfortunately, it is 14049 buildings less to compare with 2008. Meanwhile quantities of new residential buildings were 71472 in 2009 to be 10298 projects less to compare with 2008 (81970). Quantities of nonresidential buildings put into commission decreased too but the quantities are not so large to compare with residential ones: from 23500 in 2008 to 19949 in 2009.

It should be noted that construction activities including residential ones are among the top activities in the country economy. Availability of funds by EU within preparation to the World Football Championship of 2012 and inflow of direct foreign investment to Polish real estate market are the key factors influencing development of construction sector. It particularly concerns commercial real estate. Thus despite reduce in

construction volumes Polish real estate market is promising sphere of capital investment. Today investors from Germany, France, Spain and Australia take their interest in Polish real estate market.

Thus € 631mln were invested in Polish commercial property to be the lowest index from 2003. That very time 26% of total volume of investments in commercial real of Central and Eastern Europe estate were accounted for Poland. Segments of retail property and hotel property are the most attractive as for investment (Polish Retail Real Estate in 2009/10). Of 19949 new buildings of nonresidential property put into commission in 2009 25.2% are office buildings (586), hotel buildings (622), and retail buildings (3822) (Table 5).

Naturally general decrease in construction volumes in 2009 also impacted on quantities of offices, hotels, and sales areas put into commission.

However despite recessionary events in real estate market share of hotel segment within overall structure of investment transactions grew from 6% in 2008 up to 17% in 2009 (Polish retail real estate in 2009/10). About 180 hotels are either under construction or reconstruction which put into commission is planned before 2012. First of all,

interest in hotel real estate is connected with World Football Championship of 2012.

Besides, retail property is of great demand. 750 000 m<sup>2</sup> of sales areas were leased in 2009. First of all, it concerns large shopping centers. It depends on the fact the greater part of the projects have started before recession, mainly in the first part of 2008. Within period of 2010-2013 it is planned to build more than 200 shopping centers. It should be noted that first of all developers are interested in large projects, for example in construction of multifunctional complexes (Markets of European retail real estate).

As to office spaces, there were erected 929,000 m<sup>2</sup> of them in 2009. Another 700,000 m<sup>2</sup> are under construction.

The following is true as to residential property. The majority of Polish cities and towns still run a deep residential deficit. That's why despite recession demand for it stays to be rather high. Volumes of residential spaces put into commission confirm that. Decrease in construction volumes in 2009 was not significant to compare with 2008, and quantities of apartments put into commission in 2009 (111315) were even more numerous to compare with previous year (109530) (Table 6).

TABLE 6. QUANTITIES OF RESIDENTIAL SPACES PUT INTO COMMISSION

	1990	1995	2000	2002	2003	2004	2005	2006	2007	2008	2009
Dwellings completed	134215	67072	87789	97595	162686	108117	114066	115353	133698	165189	160002
urban areas	98855	48215	70099	71076	93535	72523	77711	80210	88290	109530	111315
rural areas	35360	18857	17690	26519	69151	35594	36355	35143	45408	55659	48687

Source: www.stat.gov.pl

Besides, it should be noted that Poland differs from many countries rather comfortable mortgage lending terms, and, accordingly, developed mortgage market. Following example can confirm that. In 2000 total of mortgages was some more than € 2 bln, and in 2008 the criterion was more than € 43 bln to be 15.3% of GDP. Mortgage accommodation was not stopped in 2009 (it was just less) and it favoured stabilization in real estate market (Rybak, 2010).

We can say that mortgaging was not stopped (as in Ukraine) because absolute majority of mortgages was accommodated to buy new houses or apartments. Whereby, people first tried to make payments upon loans. Representatives of middle class and those who had the only residence were the best payers. Besides, banks just could not manage to enter secondary real estate market with mortgages.

Another important factor of mortgage development under recession is availability of different government programs and initiatives (for example, "Rodzina na swoim") which have been widely used recently. Within the programs and initiatives government helps to pay for home loans. As practices show they are rather efficient (Rybak, 2010). Thanks to program "Rodzina na swoim" housing demand had not subsided even during the recession.

Undoubtedly things are not so good in Polish real estate market as might appear at first sight. Several problems can not be solved but situation had started to be stable by the end of 2009. As studies show efficiency of future activities in the real estate market first depends on mutual understanding market participants, clear organization of their work, and rational planning investment.

## Conclusions

The studies help to set forward author's version of category "real estate market". Thus we believe that from economic viewpoint real estate market should be considered as comprehensive and open system including market participants that is sellers and buyers; different forms of their economic relations connected with both construction of new real estate units, and movement and operation of available ones; it works on the basis of pricing mechanism taking into account geographic, economic, legal, and social characteristics of real estate units; it involves availability of stable internal and external relations that is adequate tools which have an effect on the system.

Today such problems of functioning and developing national real estate markets are the most acute:

1. Increase in mortgage nonpayments, and as a result, failure of agencies engaged in mortgage lending, and real estate sector funding;
2. Recession in real estate unit demand, and accordingly reduction of their prices;
3. Construction investment runoff, and accordingly construction itself.

The problems concerned all countries, all regions of the world. However, they appeared differently.

The greatest problem is in Ukrainian real estate market. Indicators of real estate market mirror modification of the key economical indicators. At the same time it should be noted that real estate market not only follows general trends but forms them in a certain manner. Positive changes in Ukrainian real estate market will take place only after the country economy. Development of civilized mortgage lending should become the key factor for residential segment stabilization. That is the mortgages interest should be 10-12% of UAH annually, and term should be no less than 20 years. Real estate market directly depends on national economic situation. Thus renewal of development bank crediting, implementation of modern managerial and construction methods, adapting in Ukrainian market practices of industrial countries, development and implementation of lines and programs of state support for real estate market are important for Ukrainian real estate market stabilization.

Poland is the example of competent administration of economic situation. That's why its national real estate market unlike Ukrainian one paid less for recession. The fact that today many investors focus on Polish real estate market can confirm that. Practically all types of real estate in Poland are of high demand which is out of proportion to the supply. In turn backlog demand whips up construction development.

However, despite rather positive shifts Polish real estate market stays imperfect. It depends on the fact that measures taken as well as following market energizing cannot bring it into accordance with modern requirements, and development rates of other sectors of economy both on quantitative and qualitative factors. The problem solving is difficult because real estate market (which classically covers both purchase and sale) is comprehensive, and a number of stage and steps are preliminary to its final stage. Thus, it can successfully function if only numerous individuals and legal entities carrying out different functions, and using various tools, forms, and procedures to implement them participate.

As practices of developed countries confirm effectiveness of real estate market broadly depends on reasonable task sharing of its players, their competence under rational organization of actions and economic relations. It is natural phenomenon that hundreds of thousands legal entities and individuals (investors, development companies, facilitators, brokers, evaluators, credit agents, financial and credit institutions etc.) act together in large real estate markets. Again Polish real estate market is still characterized by limited number of players and low level of services differentiation

although having clear tendency for expanding. Therefore, in the current context the key object is creation of efficient policy (mechanism) of faster growth of real estate market control to guarantee stable development of national economy.

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