



” Investing on the real estate market during the pandemic

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Real estates are perceived as good investment objects. According to the average Pole, who does not invest professionally in shares, bonds or his own company, investing on the real estate market is the best and the safest way of making a profit. The current interest on deposit accounts in Polish banks is at a record low level and does not protect savings from inflation. Therefore it is not surprising that Poles are interested in alternative forms of investment and very often choose real estates due to relatively low risk of loss. However, the decision to invest in these assets should be preceded by a thorough analysis of market characteristics and an understanding of its advantages and disadvantages. Unfortunately, in times of the COVID-19 pandemic, when an increased risk of panic and strong emotions must be taken into account, investing without a prior analysis may be highly inefficient.

Has the pandemic caused the decrease in transaction prices on the real estate market? How is the rental market in Poland currently shaped? What are the ways to invest in real estate? This article answers the above questions.

THE SITUATION ON THE REAL ESTATE MARKET IN POLAND

Real estate professionals' forecasts for fluctuations in transaction prices after the outbreak of the pandemic were extremely different. Shortly after the introduction of the government restrictions some of them predicted a price cut of 10-15%. The developers were convinced that the declines would not occur or, if any, would be insignificant. The president of the AMRON Centre, Jacek Furga, Ph.D. believes that no major changes on the housing market should not be expected any time soon. The price correction may take place at a later stage in response to the worse financial situation of Poles. The subprime crisis (2007-2009) had reversed price drops by 20%, but it is unlikely to occur now. In Poland between 2005 and 2008 we observed a speculative bubble and more than 100% price increases. In contrast, the growth in transaction prices over the last few years is less spectacular and does not exceed an average of 50%. In the current economic situation, large falls in house prices could only occur with both a huge economic collapse and very high interest rates. However, it probably will not happen.

The absence of large price reductions on the housing market does not mean that there may be no opportunity to buy a property at the non-market price. Bargain purchase might happen regardless of the crisis. Currently it is much more likely to find an attractive offer on the commercial real estate market, where 50% drops are being observed in some locations.

Real estates in Poland are expensive for most citizens. The housing accessibility index, which reflects the ratio between the average monthly salary and the average transaction price, is very low compared to other European countries. Despite the improvement in labour market conditions in recent years and the systematic increase in the housing accessibility index, the average Pole has to make savings for a long time or take out a mortgage loan to purchase a property. Moreover, the rental market in Poland is relatively small.

THE RESIDENTIAL RENTAL MARKET IN POLAND

The percentage of tenants in Poland is small and amounts to approx. 5%. Although the popularity of tenancy is growing, the need to own a property is exceptionally strong in our country. The fact that the rental market in Poland is quite underdeveloped does not mean that prices are low. In the largest Polish cities, the ratio between the average rent and the average transaction price of residential property as well as the average monthly salary is one of the highest in Europe.



Is it a good solution to rent a property in Poland? To answer this question, it is worth analysing the level of rental profitability. This index can be counted in different ways. The simplest is the quotient of net income from real estate to its value. It is estimated that the rental profitability in the largest agglomerations amounts to approx. 3-5% net per year. It is worth mentioning that several years ago it accounted for approx. 8-10%. The investor must remember that it is important to take into account notary services, taxes, insurance, administrative fees, and also the costs of maintaining the apartment in good condition, ageing of the building and the potential vacancies. The average rate of return on real estate investment is currently much higher than the interest rate of bank deposits. However, investors can earn much more for example on the stock market or by investing in gold, but this is obviously more risky.

Investing in flats for rent usually does not generate huge profits, as it is sometimes mistakenly believed. Competition on the residential market is growing because currently short-term rentals are offered as long-term. In addition, there is no guarantee that the property occupancy will happen quickly because government restrictions related to the pandemic may return. Investors should also remember about the cost of maintaining the apartment in good condition and the possibility of unforeseen renovation.

CHART 1. FORMS OF REAL ESTATE INVESTMENTS



Source: own work

OTHER FORMS OF REAL ESTATE INVESTMENTS

Apart from the most popular investments in flat for rent, there are also other forms of investing in real estates. One of them is Flipping, which was elaborated in the AMRON Centre article written by Agnieszka Bartoszewska entitled “House Flipping – an unexplored phenomenon on the real estate market”. The alternative is also



an investment in aparthotels, but due to the crisis in the tourism sector, we cannot expect immediate returns. An interesting option is Crowdfunding, which consists in investing a small amount of money in the form of partnerships. The biggest advantages of social investment are: low risk of capital loss, no need to service tenants and the possibility of withdraw money at any time. Another alternative is subletting a property. It consists in signing a tenancy agreement and then renting the property to another person at a higher price. Such an undertaking must obviously be agreed with the property owner. Some investors search for apartments with adverse layout of rooms, make purchases, and then divide them into smaller ones. Thanks to this, they can rent the premises to more tenants and simultaneously earn more.

SUMMARY

Investing in real estates should be preceded by a thorough analysis of the local real estate market. When considering buying an apartment for rent, it is worth deciding which segment of the market we are interested in – renting for a family with children, students or other tenants. The analysis of the profitability of such an investment must take into account the potential vacant space during the holidays in case of students or probably a long rental period and lower renovation costs for families with children. It should also be remembered that housing prices in various market segments react slightly differently to changes in the economic situation. In addition, the stability of the real estate market may differ depending of the region. This is an important matter in case of exit from the investment. Before deciding to put capital into real estates, it is worth seeking information from reliable sources or from real estate professionals.



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AMRON Centre

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