



” REITs in Poland? Yes, but...

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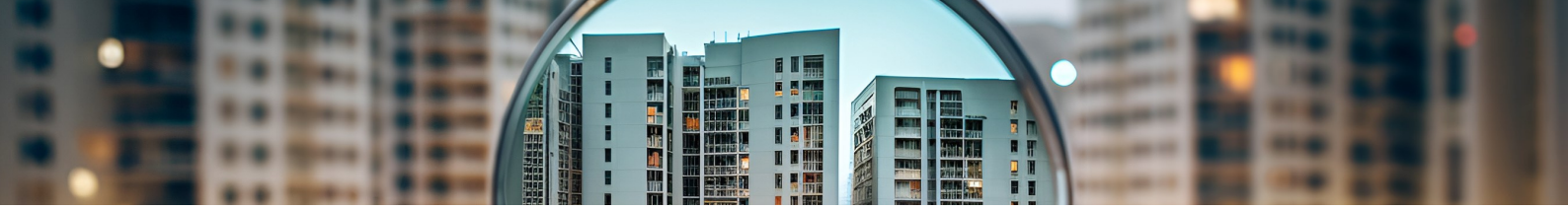




REITs, or Real Estate Investment Trusts, are special funds that invest on the real estate market and generate income from leasing or selling properties. REITs currently operate in 46 countries worldwide. The United States has the longest history with REITs, having introduced them through the REIT Act in 1960. The intention behind this solution was primarily to open up the commercial real estate market, previously dominated by large funds and wealthy investors, to smaller, individual investors. A key feature of the new solution was the imposition of several requirements on these entities, the most important of which included the obligation to distribute 90% of income as dividends and a focus on real estate investments. The first European country to introduce REITs was the Netherlands. In 1969, tax-privileged investment funds known as Fiscale Beleggingsinstelling were established, which were de facto tax-exempt and required to distribute 100% of their income to shareholders within 8 months of the fiscal year-end. From the 1990s onward, similar solutions were introduced in other countries: Belgium, followed by France (SIIC), Germany (G-REIT), the United Kingdom and Spain (SOCIMI). In Asia, successful implementation examples include Japan, South Korea and Singapore, where REITs play a significant role not only in the real estate sector, but also on financial markets. It is important to note that this model is not uniform: in each country, REITs are regulated individually and the principles of investment and taxation of income vary.

The first plans to introduce REITs in Poland emerged in 2016. At that time, the Ministry of Finance began working on a bill concerning FINNs, i.e. Companies Investing in Real Estate for Rent, which was intended to create the legal framework for Polish REITs. As in other countries, the goal of implementing this solution was to allow smaller individual and institutional investors to participate in the real estate market while maintaining high investment liquidity and transparency, as well as favourable tax treatment, such as exemption from corporate income tax (CIT) in exchange for paying out a specified level of dividends. Initially, the draft legislation assumed that Polish REITs would invest in the residential rental market. Over time, however, the proposals evolved, broadening the scope of investment to include commercial real estate and expanding the pool of potential investors. Subsequent versions of the bill failed to gain full support, either from the market or political decision-makers. Delays were caused by concerns over the speculative nature of the funds and their potential impact on rising housing prices. Critics also pointed to a lack of transparency in the projects and the absence of safeguards for tenants. At the same time, shifting economic conditions, including the COVID-19 pandemic and capital market instability, pushed the topic of REITs further into the background.

The issue of introducing REITs returned to public debate in 2021. A new draft bill was presented, this time focusing exclusively on the commercial real estate market. Despite support from parts of the industry, this bill also failed to pass. In April 2024, the Ministry of Development and Technology revived the idea of introducing REITs, even presenting initial assumptions for a draft bill. However, to date, no official draft amendment or new legal act has been published, and work on new solutions is also underway at the Ministry of Finance. According to media reports, legislative assumptions could be published before the summer holidays. Based on information from the Ministry, the operational framework for Polish REITs in the residential and commercial real estate sectors is already prepared, while work continues on investment rules for infrastructure REITs.



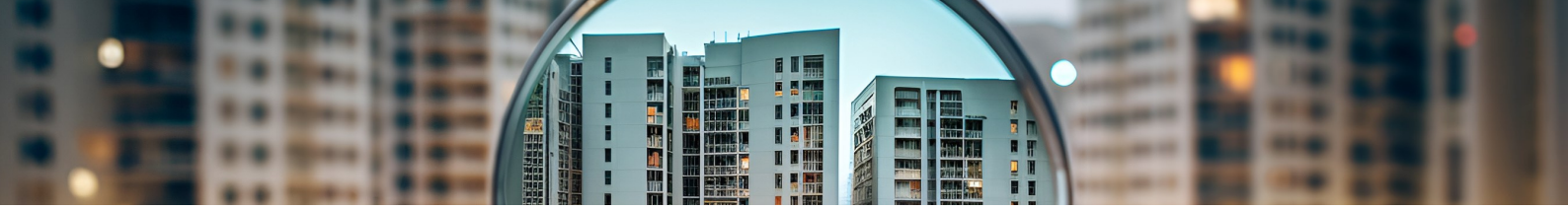
Supporters of introducing REITs in Poland point out that REITs will significantly lower the entry threshold for real estate investments, making them accessible to those, who cannot afford to purchase an entire rental apartment, bear transaction costs, or are unable or unwilling to manage rental properties. Thanks to this low entry threshold, REITs will democratize real estate investment, offering an alternative to bank deposits or equity funds with relatively low investment risk. As such, they could also provide tangible support for the pension system, especially given an ongoing demographic crisis. In Poland's rental market, which is dominated by private owners, REITs as institutional landlords managing large portfolios of apartments could introduce new quality standards in renting. This is also evidenced by the experience of countries that implemented this solution earlier.

Another important argument in favour of REITs is the need to overcome one of the biggest barriers to the development of Poland's housing market – limited access to long-term, stable financing. If we add the possibility of financing or co-financing not only housing, but also infrastructure projects, REITs could become highly attractive partners for local governments.

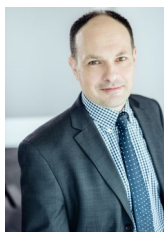
The list of potential benefits of implementing REITs is therefore long. Moreover, these benefits seem truly significant from the perspective of both potential investors and housing needs. All the more, however, it is essential to also consider the potential risks associated with such solutions – risks that, as international experience shows, are not negligible. Sceptics point to the potential rise in property prices or rental rates as the main risk of introducing REITs. This risk does indeed exist, as seen in cities such as Berlin, Dublin or Toronto. Rising housing prices, however, are only part (and a consequence) of a broader phenomenon: the financialization of the housing market resulting from the entry of institutional players. In this process, housing ceases to be viewed as a basic good that fulfils a fundamental human need and instead becomes an investment asset, subject to profitability and value growth criteria. Over the long term, this increases the risk of housing affordability decline and, in extreme cases, the rise of housing exclusion, especially affecting young people, families with children and the elderly. The demographic and urban development consequences of such a scenario are self-evident.

The financialization of the housing market also brings with it the risk of REITs “transferring” problems from the capital market to the housing market. A downturn in capital markets, caused by factors such as interest rate hikes, financial crises or capital flight, could force asset sales, which in turn might destabilize the housing market. In such a case, homes intended to meet basic human needs could become hostages to stock market sentiment. In unstable and risky times, when capital is once again “gaining nationality,” destabilizing the housing market – and thereby social sentiment – could also become a likely scenario and a weapon in hybrid warfare.

According to a report published in December 2024 by JLL and Bank Pekao S.A., the potential long-term engagement of domestic individual and institutional investors in Polish REITs could reach approx. PLN 20 billion. This is an amount comparable to the quarterly volume of mortgage financing by the Polish banking sector. Given that these funds would be invested in both residential and commercial real estate,



there is little reason to fear the materialization of the above-mentioned serious risks. However, the likelihood will grow along with the volume of invested capital. It is therefore essential to establish assumptions that will mitigate these risks in the future as well.



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