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Housing Market in Crisis Period – the Example of Poznan

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Abstract. The aim of the paper is to depict the situation on the housing market in Poznan during and after the crisis that hit the market in 2007. The author showed price tendencies for flats both on primary and secondary markets. The study carried out showed that housing structure and sales offer differed in particular city districts in certain crisis phases.

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Introduction

The housing market is the most essential segment of property market, and its development is determined by a range of social, economic, legal and cultural factors (Gawron, 2007). The Polish housing market picked up substantially under the system transformation.

The centrally planned economy left a severe housing shortage. At the same time, the existing inefficient system of housing construction collapsed, triggering the need to create a new, market-based system. The phasing out of generous government subsidies resulted in financing housing construction mainly from personal resources and bank mortgages (Bryx, 2007).

As a result, housing construction volume decreased. Concurrently, one could observe remarkable progress in the fields of technology and finishing materials. Customers' expectations for the housing standard increased considerably, leading to a great increase of housing construction costs and flats prices. Therefore, new housing construction in Poland has been developing quite slowly in the last 20 years.

The boom on the housing market in Poland was fuelled mainly by the rally on the so called secondary market. In the light of a severe housing shortage, prices of flats both on primary and secondary markets increased consistently, especially in big cities. Yet the biggest boom surfaced in the Polish housing market during the years 2005 – 2007 (Gawron, 2011), and a number of political and socioeconomic factors contributed to its creation. As a result, prices of flats soared by 100–120%. However, such a sudden increase in prices of flats could not last too long and 2007 heralded a property crisis. Explaining the manifold reasons of the crisis still needs further in-depth research.

Undoubtedly, one could observe falling demand and fluctuating prices of flats since the second half of 2007. The main incentives to write the paper were the following questions:

- What were the phases of crisis on the housing market?

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- How was the crisis changing housing offer (especially the one available on the secondary market)?
- How were housing stock structure and offer prices changing in big cities?

The author tried to answer the aforementioned questions by looking at the changes within housing offer structure on the secondary housing market in Poznan in the years 2007-2010. More than 10 000 housing offers have been studied, as well as statistically evaluated and analysed. The statistical material and findings are presented below.

Changes of offer structure on the Poznań secondary housing market in the years 2007-2010

In the first years of XXI century, offer prices of flats on the secondary market in Poznan were growing consistently. The tendency may be depicted as follows – see *Chart 1*.

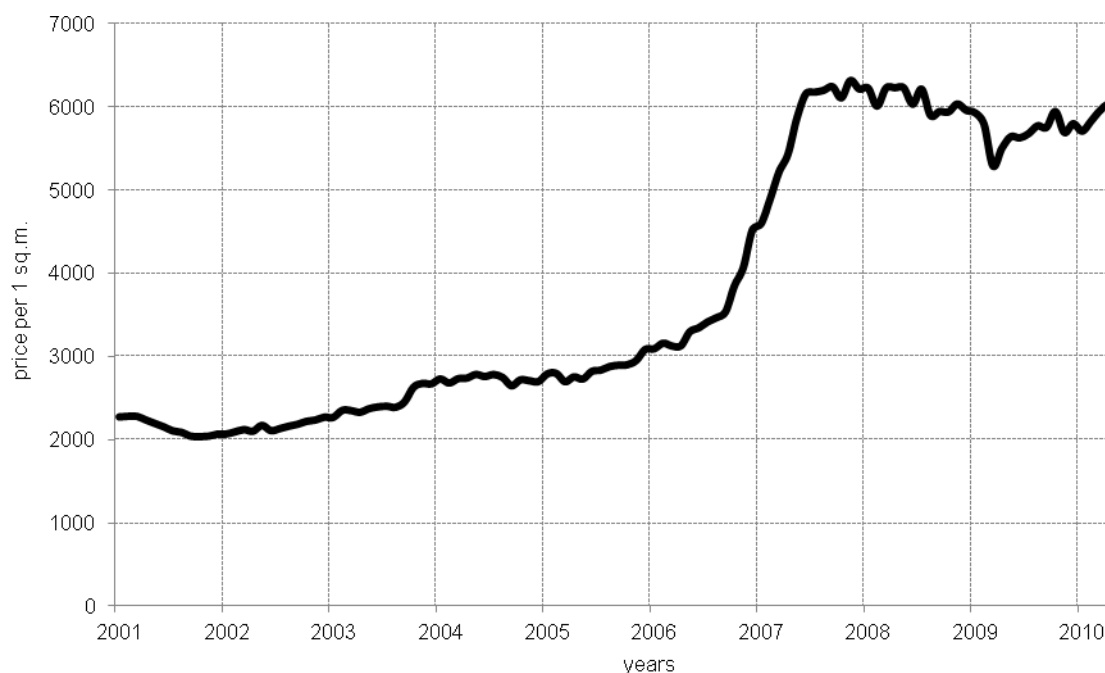


Chart 1. Price tendency for flats [per 1 sq.m. in PLN] in the years 2001-2010

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

After a rapid price boom starting in 2006, crisis hit the Poznan housing market in the middle of 2007. It led to many and various changes within the housing offer on the secondary market. Prices were subject to manifold changes from the second half of 2007 until the end of 2010, as demonstrated on *Chart 2* beneath:

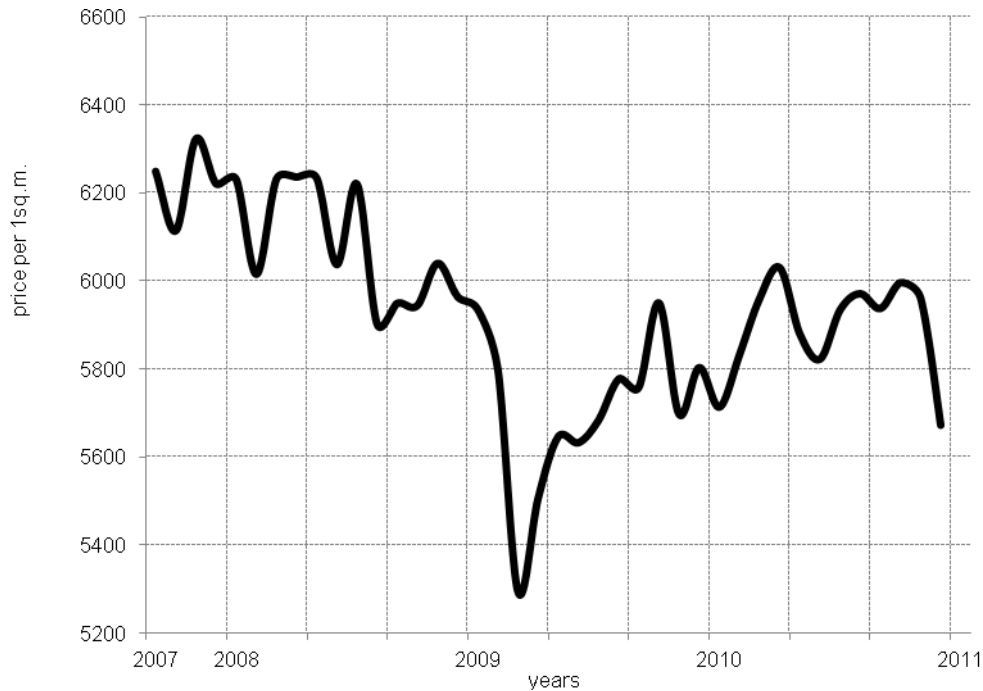


Chart 1. Price tendency for flats [per 1 sq.m. in PL] in the period VIII.2007 – XII.2010

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

Chart 2 illustrates dynamics of average offer price of flats (per square metre). The prices were affected by many factors and yet the analysis denies the common notion that their level dropped substantially. Therefore, in order to identify tendencies that occurred on the property market during the crisis period, one needs to conduct an in-depth analysis.

Surveys carried out among property brokers show that new flats constituted a considerable share of sales offers available at that time. The flats were mainly purchased before the analysed period with a purpose of reselling them for profit. Due to the share of these new and expensive flats in the offer, the fall of average housing prices level on the secondary market was cushioned. Brokers tried to adjust their housing offer to market participants' ever changing needs, and it is a known fact that in the times of crisis people are more interested in small and medium flats. Changes in structure of housing offer with respect to size of flats are demonstrated below (*Chart 3*):

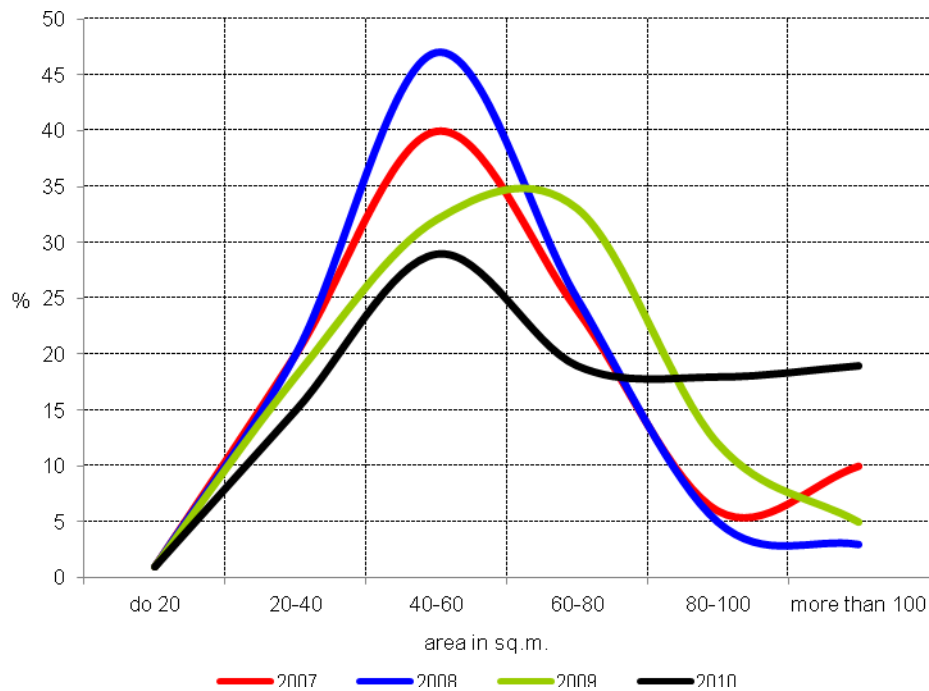


Chart 3. Structure of housing offers in the years 2007-2010

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

For the reason mentioned above, one could observe a marked increase in share of small and medium-sized flats in the housing offer in the first months of the crisis. After that, bigger flats came back on the market. Prices of flats of different size varied significantly during the crisis period.

At first, prices of the smallest flats showed a slightly downward trend, but it soon reversed along with the growing demand for this kind of flats and their limited supply (see *Chart 4*).

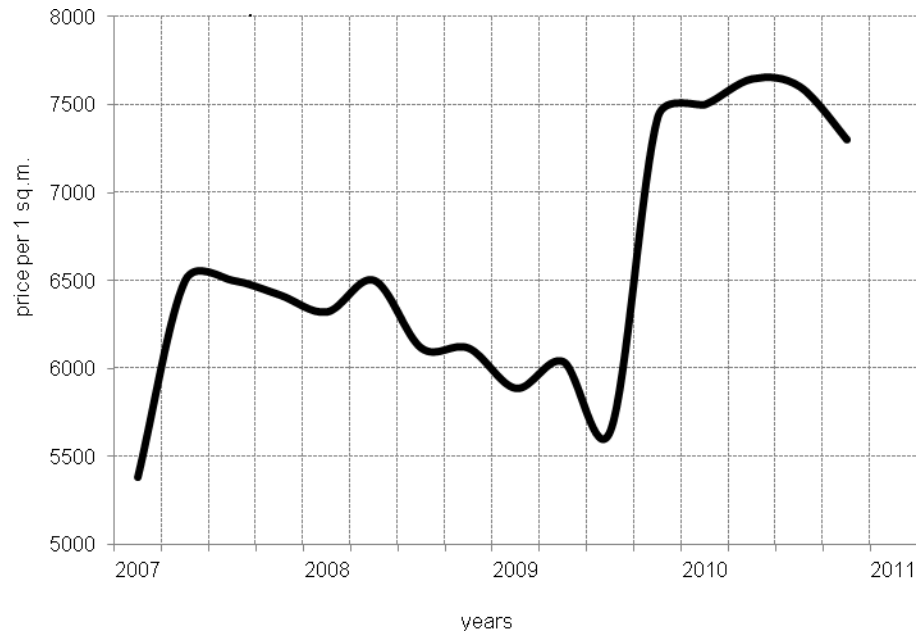


Chart 4. Price tendency for flats up to 35 sq.m.

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

Offer prices of flats between 36-50 sq.m. displayed a similar tendency, as shown beneath (*Chart 5*):

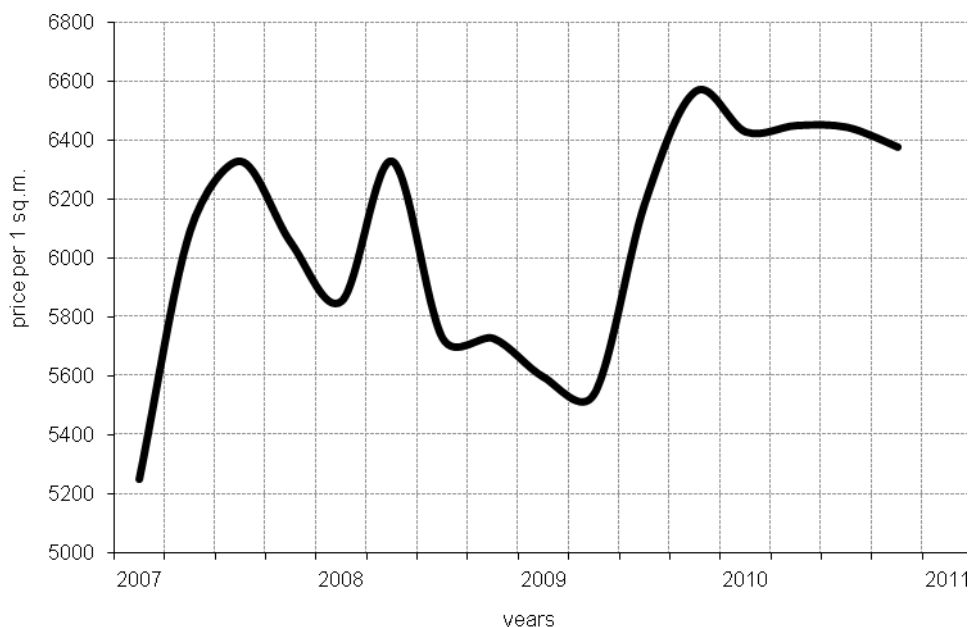


Chart 5. Price tendency for flats 36 – 50 sq.m.

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics

Prices of flats sized 51-65 sq.m. that formed the biggest group within the housing offer remained fairly stable, except of the several-months period of decline in 2009. The tendency

was as follows (see *Chart 6*):

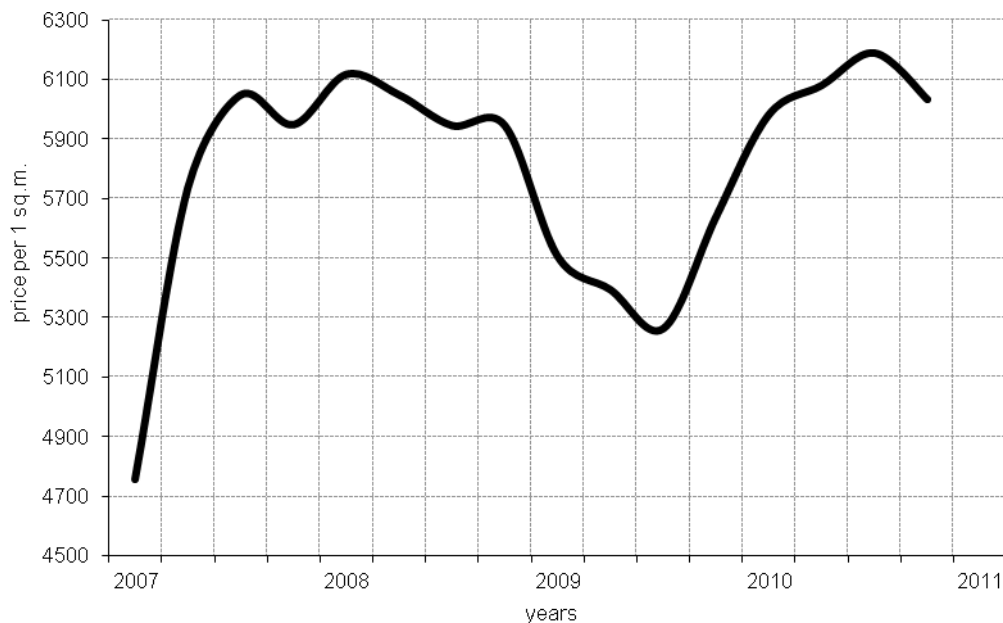


Chart 6. Price tendency for flats 51-65 sq.m.

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

There was a great variety of offers of flats between 66 and 80 sq.m. Despite or thanks to this diversity, the average offer prices within the group remained quite stable, as demonstrated on *Chart 7*.

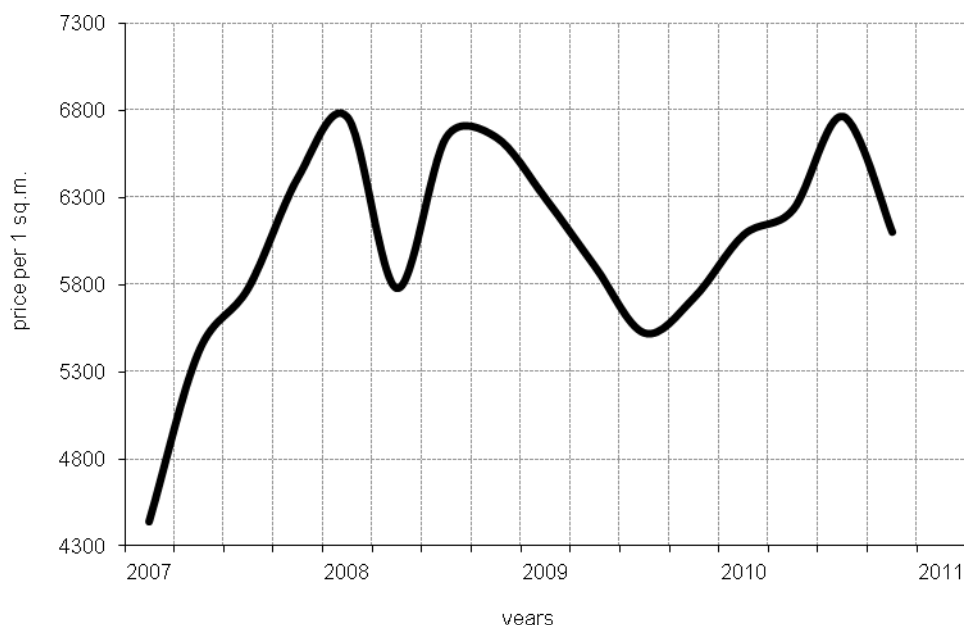


Chart 7. Price tendency for flats 66-80 sq.m.

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

The most considerable changes during the crisis period occurred within the group of

big flats. At first, the owners struggled to maintain the relatively high price level of their properties, yet after some time the prices plummeted due to the low demand (see *Chart 8*).

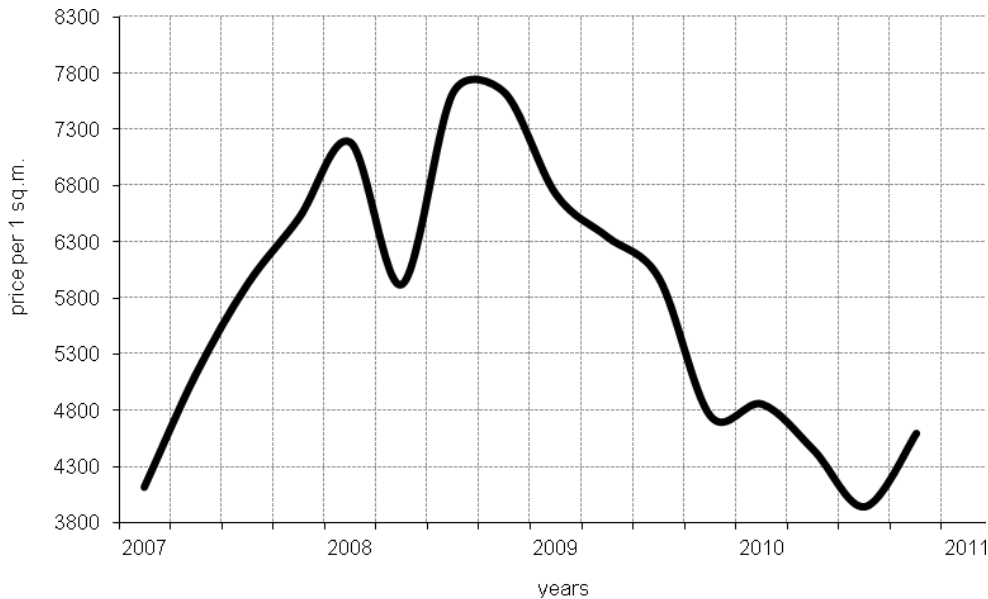


Chart 8. Price tendency for flats bigger than 80 sq.m.

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

Was it possible to predict the average price changes of flats located in different areas of Poznan? The study showed that housing structure and sales offer differed in the analysed districts in certain periods of time. This is why clear price tendencies could not be distinguished. The average price of flats showed a growing tendency in some districts, while it displayed a falling tendency in other areas. The results are presented below (*Charts 9-12*):

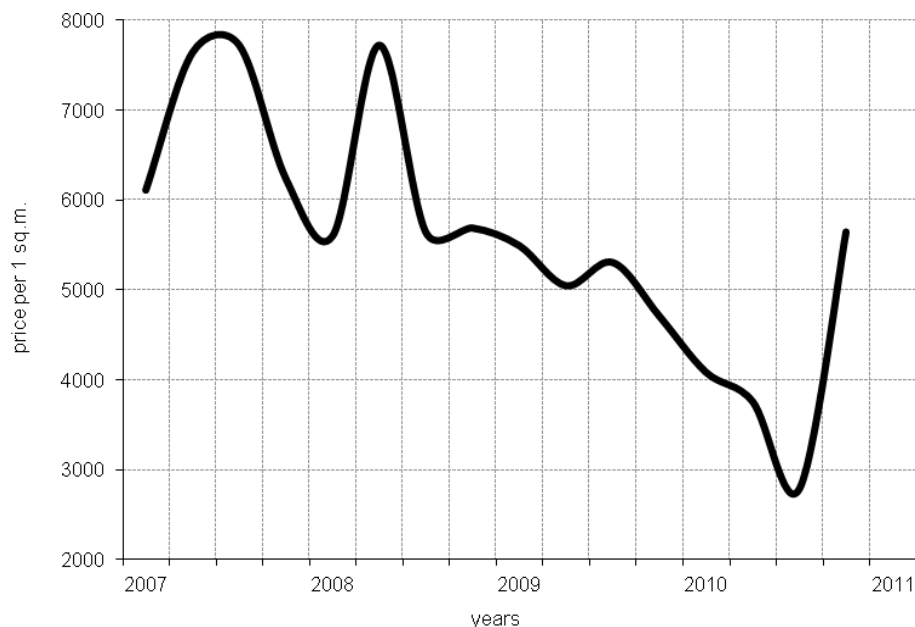


Chart 9. Price tendency for flats in the city centre

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

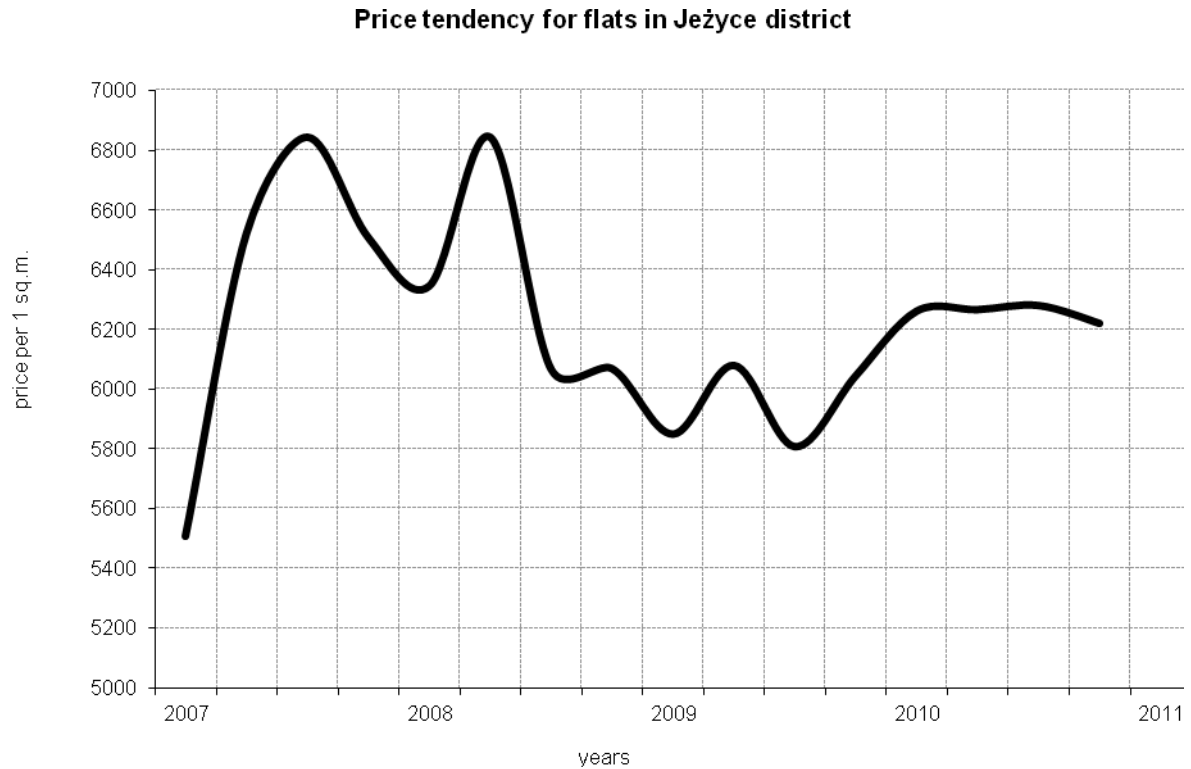


Chart 10. Price tendency for flats in Jezyce district

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

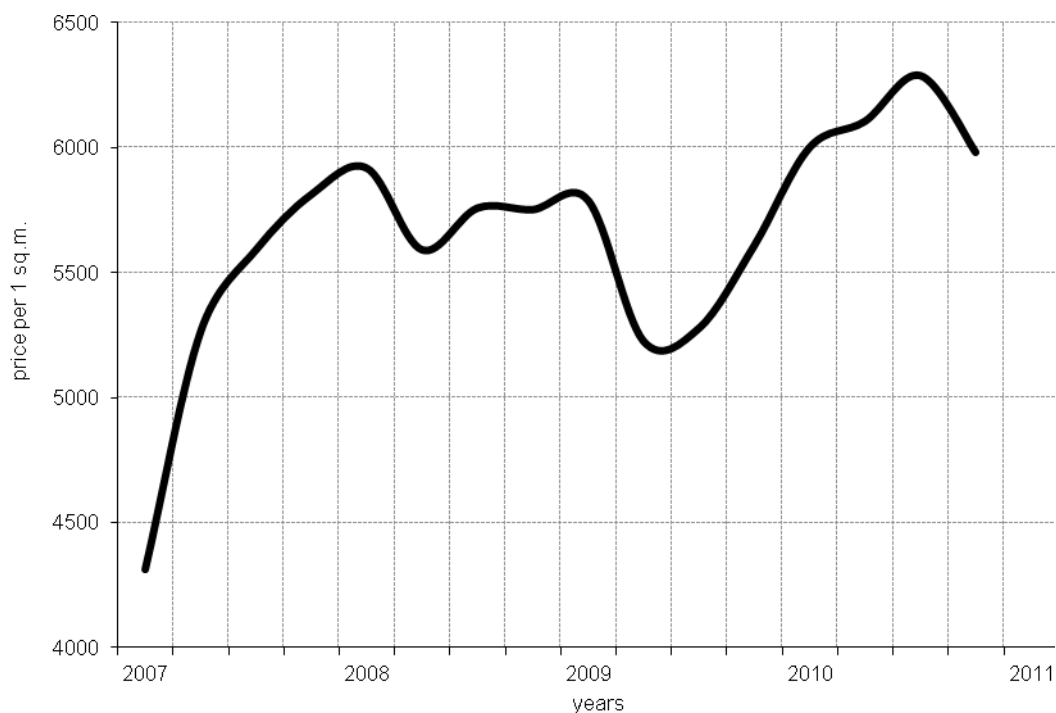


Chart 11. Price tendency for flats in Rataje district

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

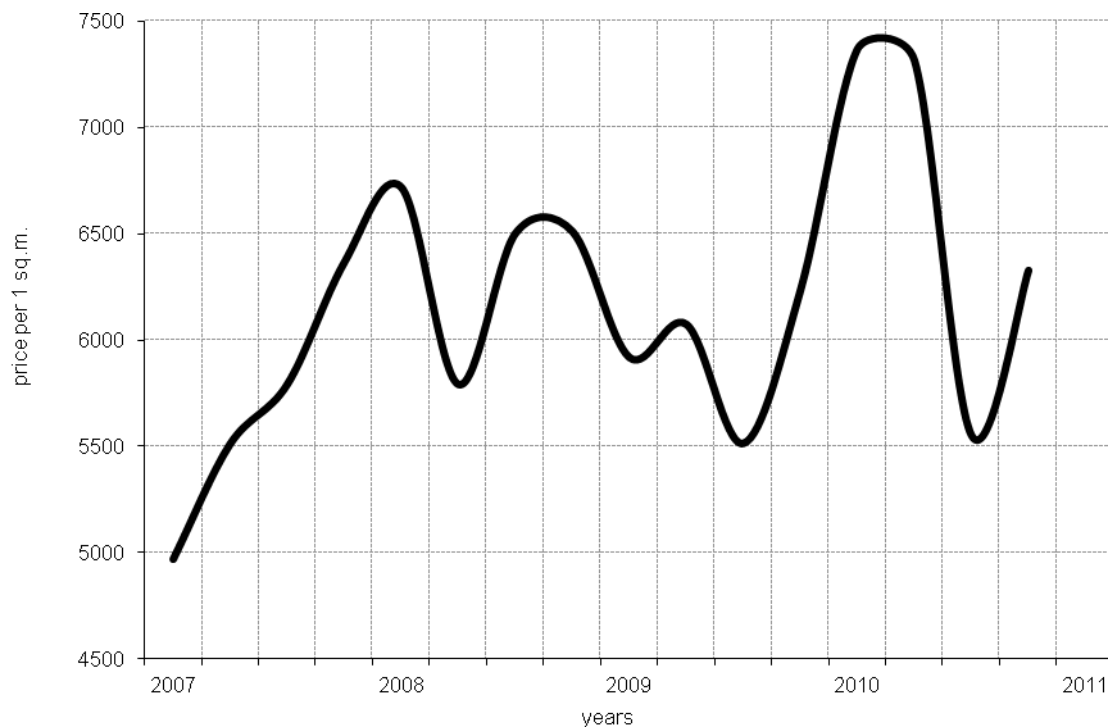


Chart 12. Price tendency for flats in Wilda district

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

The charts presented above show that average prices of flats on the secondary market displayed contradictory tendencies in particular city districts. The prices fell in the city centre and Jezyce district, yet they grew slightly in other districts e.g. Wilda and Rataje, where new flats appeared in the housing offer more and more often.

Primary housing market in Poznan in the years 2007-2010

Along with the falling average price of flats on the secondary market, the primary market also suffered a downturn. It is noteworthy that the average price of 1 sq.m. of new flat was approximately 8 800 PLN in the middle of 2007, while it dropped to 6 230 PLN at the end of 2010. In other words, the average price of a new flat fell by 40%. *Chart 13* shows the price tendency for 1 sq.m. of new flat in Poznan in the years 2005-2010.

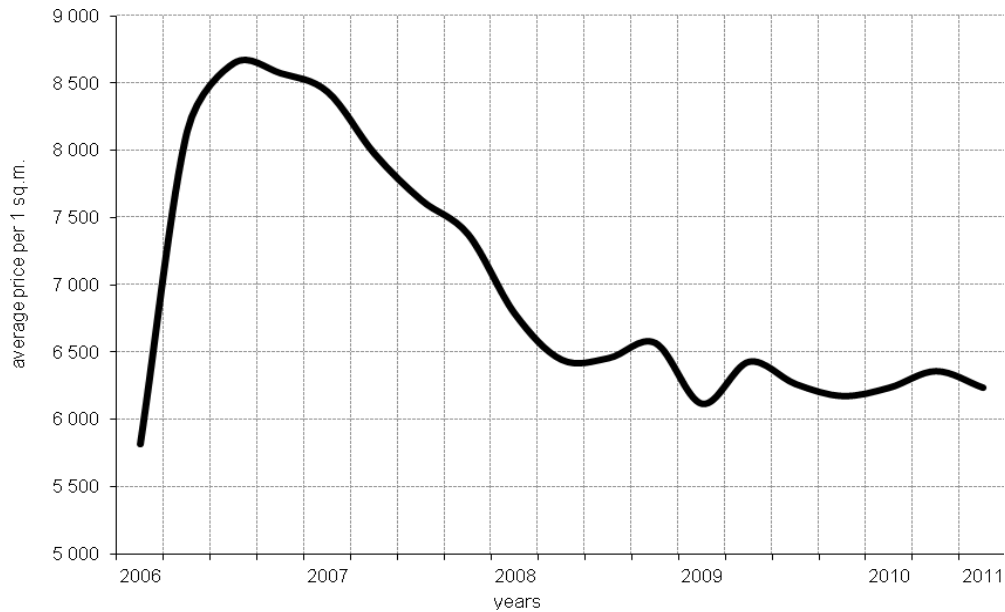


Chart 13. Price tendency for new flats in Poznan in the years 2005-2010

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

The average price of a new flat was affected both by the overall situation on the market, growing number of unsold flats, and change in standard and localization of flats. Therefore, the price tendency for flats [1 sq.m.] in particular districts of Poznan in the years 2005-2010 may be illustrated as follows (see *Chart 14*):

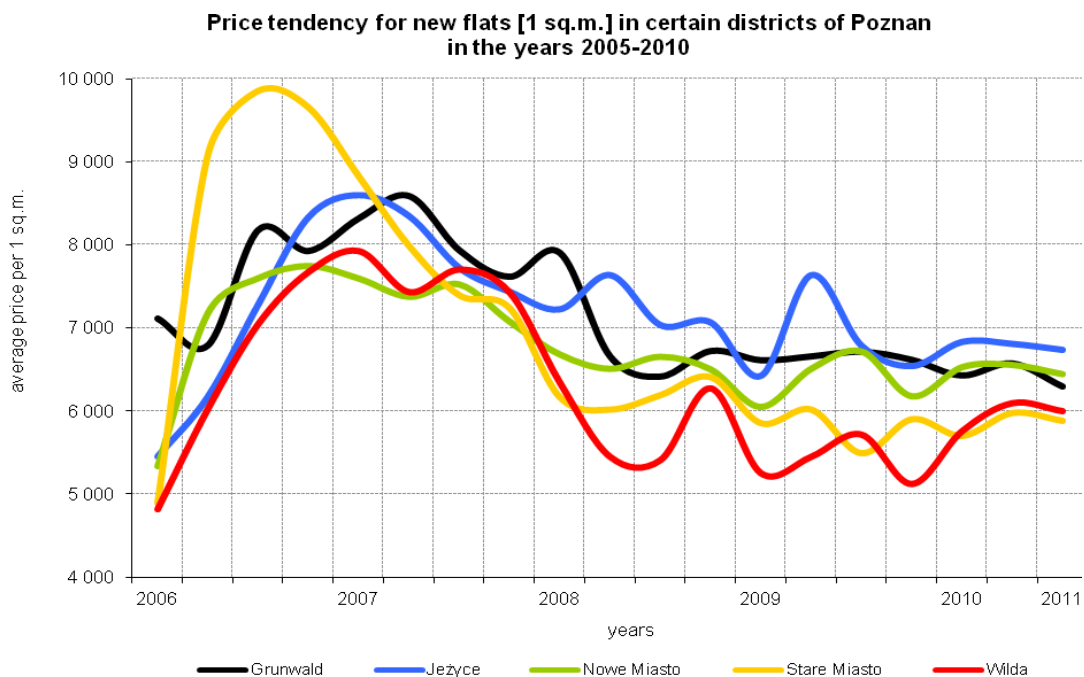


Chart 14. Price tendency for new flats [1 sq.m.] in some of the city districts in the years 2005-2010.

Source: materials gathered by the Department of Real Estate and Investment, Poznan University of Economics.

Summary

Observing prices of flats on the secondary market in Poznan, one may reach several conclusions. First of all, the crisis brought falling demand for flats and it decreased property brokers' turnover by approximately 30%. Prices of flats showed a downward trend. Brokers tried to tailor their offer to prospective customers' more and more diversified expectations. These steps resulted in various periodic changes in the structure of housing offer on the Poznan secondary market. Despite the almost 4-year crisis period on the housing market in Poznań, there is little sign of an upturn or growing demand for flats.

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