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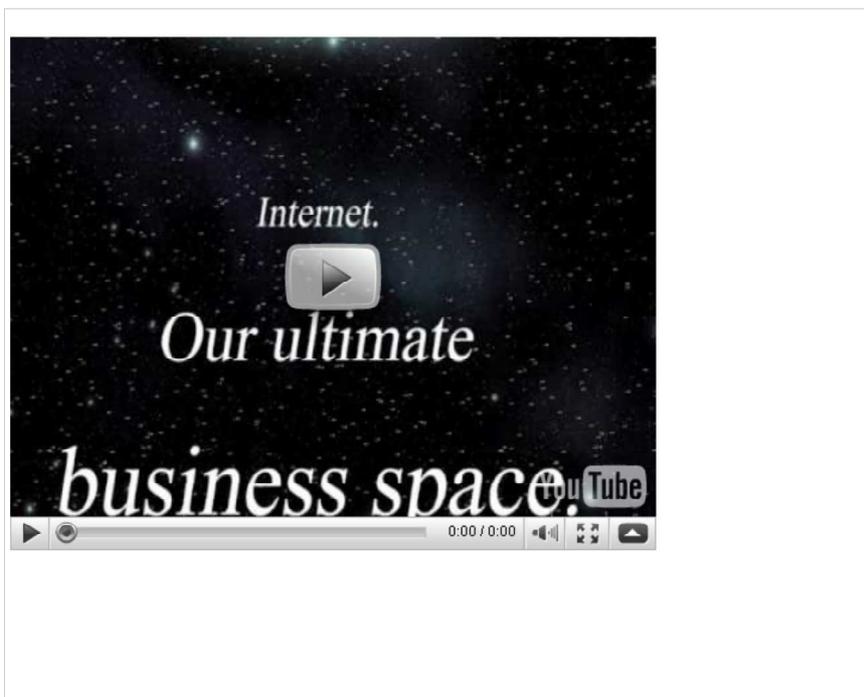
WEEKLY NEWSMAGAZINE: Real Estate

Luxury Apartments Few and Far Between

February 4, 2010

Warsaw's luxury apartment market has ample room for growth, experts say. This is largely because many of the projects advertised as luxury apartment buildings in fact have little to do with luxury. In the late 1990s, any high-standard flat was commonly called a luxury apartment, and some developers in the city continue to misuse the term.

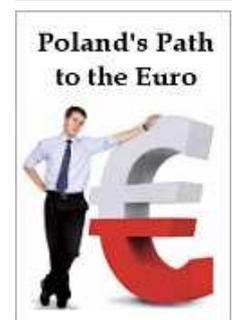
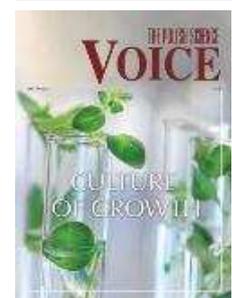
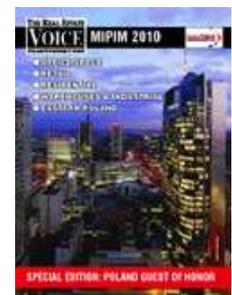
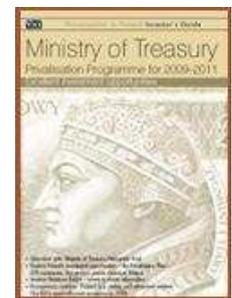
According to Marcin Jańczuk of Metrohouse real estate services company, a good example of a Warsaw project that fully meets the definition of a luxury apartment building is Rezydencja Opera on Niecała Street close to the Wielki Theater. New residential projects of this kind include buildings at 59 Mokołowska St. and 4 Grzybowska St., in addition to the Trio building in the Muranów neighborhood, Jańczuk says.

**Genuine luxury**

What conditions should a luxury apartment building meet? The first one is location-close to the center and historical parts of the city. Buyers are also attracted by a "good address," like the Royal Route, Nowy Świat Street or Krakowskie Przedmieście Street.

"Clients paying zł.20,000 and more per square meter will also appreciate a design input from a well-known architect or studio," says Jańczuk. "Also important are the finishing materials and a facade setting the building apart from its surroundings. Spacious and neat common areas, such as a lobby with a front desk, are another feature of a luxury apartment building."

Technical facilities and an intelligent building management system are also important, experts say. They still differ on whether a relatively small dwelling of 50 square meters can be called a luxury apartment even if it meets all the other requirements. Some say that 50 sq m of luxury space is enough for a single occupant. Others argue that one of the features of a luxury apartment is spaciousness-and this means three-meter high interiors, large windows and a floor area no smaller than 100 sq m.



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According to Jańczuk, a 50 sq m flat could at best be called a high-standard apartment. "A luxury apartment needs to be at least 100-120 sq m in area," Jańczuk says. "Why? Because luxury apartments are governed by their own rules. The living-room should be no smaller than 30-35 sq m. Today designers increasingly choose to separate the kitchen from the living-room, a trend opposite to that several years ago when the living-room and kitchen were combined into a single space. Buyers support the new trend. Many of them had open kitchens in their old apartments and say this arrangement is uncomfortable. Then, there is also a quality hallway, bathroom for guests and a separate bathroom for each bedroom."

Karol Dzięcioł, senior consultant at real estate services company REAS, says the Polish housing market has yet to agree on a full set of luxury apartment standards. REAS classifies the luxury apartment market into two segments: luxury apartments and value-added luxury apartments. "Around 40 projects advertised as luxury apartment developments have been completed in Warsaw, but only a few of them are genuine luxury projects," Dzięcioł says.

And what is the difference between a luxury apartment and a high-standard apartment? Jańczuk says there are many apartments that meet the standards of a luxury apartment but the building in which they are located does not because it is in a shabby neighborhood, does not have an elegant common area, and so on.

Exceptional and expensive

The price per square meter for a luxury apartment usually depends on the location, size and type of the building, technical facilities, architecture and additional services available in the building.

According to Dzięcioł, asking prices for luxury apartments dropped by around 12 percent in 2009, while the actual transaction prices were 10 or so percent lower depending on the developer. "At present, a luxury apartment costs around zł.13,500 per square meter on average, but there are considerable differences within this segment," Dzięcioł says. "The prices of the cheapest units are below zł.10,000 per square meter, while the most expensive luxury apartments are offered for up to zł.38,000 per square meter."

Rezydencja Foksal, where the price per square meter is up to zł.30,000, will be one of the more expensive projects in Warsaw. The five-story building is under construction on a site at 5/7/9 Kopernika St. to replace the former Skarpa cinema, which was demolished in early 2008. Construction work began at the end of last year. The investor, BBI Development, says Rezydencja Foksal will be one of the most prestigious buildings in Warsaw thanks to its location and small scale-it will have only 38 apartments, including 30 luxury ones. The average apartment will be 150 sq m in area. Each apartment will be three meters high. Offices, three luxury boutiques and a restaurant will be located on lower stories.

The building, inspired by Warsaw's modernistic architecture of the 1930s, was designed by the Juvenes studio. The facades will be clad in sandstone and feature wall sculptures and iron finishing. There will be a fitness club of over 500 sq m with a 11-meter swimming pool and a squash court in the building. The project is scheduled for completion in June 2011.

A new chapter

The latest crisis has not spared developers building luxury apartments. "Because of the economic slowdown, last year was a special time not only for luxury apartments, but also other segments of the residential market," says Jarosław Szanajca, president of Dom Development, a developer that completed a luxury apartment building at 4 Grzybowska St. in December. "Non-luxury apartments began to sell better after the first quarter of 2009, while the luxury apartment market took longer to pick up. Today, luxury apartments are increasingly popular, which is reflected by the number of deals."

The 4 Grzybowska St. building opens to a park and has 287 apartments, including five penthouses. Apartments ranging from 38.3 to 250.7 sq m are now being offered for sale. Their prices range from zł.12,000 to zł.29,500 per square meter.

"Over the past five years, there have been considerable variations in the proportion of luxury apartments on the housing market," says REAS's Dzięcioł. "The reason was a sharp increase in the supply of such apartments during the housing boom. They attracted not only local buyers, but also a large group of foreign investors. As a result, at the end of 2008 the supply of luxury apartments was excessive. When the crisis began the number of transactions fell the most in this segment, causing developers to withdraw from projects they had already started or planned. This does not mean that demand vanished completely. In 2009, only four projects were launched on the Warsaw market in this segment, with sales numbering several hundred apartments, or around 10 percent of all transactions on the primary market. But in the absence of new projects and with several projects put on hold amid relatively low demand, the number of luxury apartments offered for sale dropped."

According to Jańczuk, the value-added luxury apartment segment has remained strong despite the crisis. There are still few projects of this kind in Warsaw, Jańczuk says. "In contrast to standard apartments, luxury apartments offered for sale often wait a half or whole year for the buyer, but no one panics because of this," he says. "There are 1,000 to 2,000 prospective buyers for the most expensive luxury apartments in Warsaw. This explains why the number of transactions is small, but this is a special feature of this market segment."



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Genuine luxury not advertised

There are few buyers, few sellers and special marketing methods on the luxury apartment market. Especially prestigious projects are sometimes advertised by precisely targeted mailing and by word of mouth. Often the wealthiest individuals in this country are the target group. If any information about the project appears in the media it is usually vague. A "word-of-mouth" marketing campaign is not cheaper than a conventional advertising campaign, experts say, because the tools used need to be more sophisticated and of higher quality. Information materials and brochures are printed on the finest quality paper and packed in an especially tasteful and imaginative way.

Opportunity knocks

No spectacular luxury apartment projects are expected to get under way in Warsaw this year, though analysts say demand runs high. "The Warsaw market has yet to see the development of full-fledged lofts and high-rises," says Dzięcioł. "In terms of standards, we still lag behind other European capitals. But as the market develops, the quality of projects in the highest market segments will be improving steadily."

According to Jańczuk, Warsaw needs small-scale projects rather than luxury high-rise buildings. "Residential construction in the West shows a similar trend," Jańczuk says, adding that "simple and functional projects with a flexible design will also be successful."

Magdalena Fabijańczuk**Marcin Jańczuk of Metrohouse:**

"There are 1,000 to 2,000 prospective buyers for the most expensive luxury apartments in Warsaw. This explains why the number of transactions is small, but this is a special feature of this market segment."

Karol Dzięcioł of REAS:

"The Warsaw market has yet to see the development of full-fledged lofts and high-rises. In terms of standards, we still lag behind other European capitals."

COMMENTARY**Home Sweet Home**

Piotr Stachulski, joint owner and manager of developer Diamentic Estate

The market for houses is much more immune to economic fluctuations than the market for popular apartments. Most customers who plan to buy a house are people whose financial situation is stable and who plan to invest their own savings in a house. If they do decide to take out a loan, they have no problems in obtaining one. People who buy houses are also very demanding customers. They are often interested in the details of modern technology such as passive home technology. They are also keen to have changes and improvements made to their houses while those are still under construction by developers.

Houses are products that are specially appreciated by buyers who are both financially and professionally stable. Most customers who sign contracts to buy houses in the Saskie Zacisze estate in Warsaw are professionals in prestigious jobs and include lawyers, doctors, architects and financiers.

Without a doubt, stability in one's personal life also plays a major role in the decision to move into a house of one's own. The vast majority of customers who choose to buy a house are families with children. They want more room with opportunities to rearrange utility space, converting some of it, for example, into a laundry room, a large garage and other utility rooms.

A new trend has emerged in Warsaw whereby customers are seeking out real estate within the city limits. Until recently, moving into a house of one's own was associated with moving out of town. A lot of customers, however, want the comfort that a house provides, but are reluctant to give up the amenities of big city life. There are few such opportunities in Warsaw, but Saskie Zacisze is one of them, located just 5.5 kilometers from the center of Warsaw. We have noticed this market niche and we believe that in the coming several years developers will pursue this new trend.

COMMENTARY**Banking on Quality Amid Crisis**

John Geoghegan, Head of Operations, President of the Board, Menolly Poland

Menolly Poland launched sales of Nowe Powiśle in November 2007 at a time when the market was approaching the end of the 2004-2007 period of growth. Interest in a scheme of this nature, the construction of which was to start in March 2008, was beyond our wildest expectations. We had a very high level of pre-sales before Christmas 2007. However, with the oncoming global difficulties in early 2008, which culminated in the beginning of the global financial crisis in September that year, the sales market changed dramatically.

In order to stimulate demand in a difficult market we introduced upgrade changes to the design of the scheme. Nonetheless, 2008 and the first half of 2009 were a tough time in the marketplace.

Towards the end of 2009 we saw a significant improvement in market conditions. In our view, by the end of 2009 there were substantial signs of stability in the marketplace. At the end of 2009 we saw a dramatic improvement in interest and sales in Nowe Powiśle. Most of our buyers (it's worth mentioning that 99 percent of our buyers are from Warsaw) were of the opinion that the crisis was ending and this was the best opportunity to buy before the next upturn in this excellent location.

We are delighted to note that 2009 has been our best year so far. In my opinion, the worst of the crisis is behind us and, if no major external shock takes place, the future is bright for 2010 and beyond as the marketplace resumes a period of moderate and steady growth.



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