EFFECT OF THE WORLD FINANCIAL CRISIS ON REAL ESTATE MARKET IN TERMS OF POLAND AND UKRAINE

JANUSZ RYBAK
Western Chamber of Commerce and Industry, Poland

VALENTINA SHAPOVAL, PH.D
National Mining University, Ukraine

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Abstract: The article studies the world financial crisis effect on real estate markets in Poland and Ukraine. It will help to deepen learning laws and peculiarities of real estate markets performance in the countries and to develop events which foster both stabilizing and their future progress.

Introduction

Financial system of any country is a composition of both different and closely connected markets forming complex market structure. Level of development as well as functioning features of the structure particular segments is important aspect for the progress of market relations. Real estate market is one of specific components of economics.

From economic and philosophic point of view real estate market is an infrastructural class connected with conditions necessary for production, commercial, social, ecologic, and other activities. It is caused by the fact that any real estate units are to cater for take care of specific needs: real estate market is for ensuring housing enterprise; market of industrial facilities is for catering for production methods; land market is for civil engineering and industrial engineering, farm production, tourist activity, and recreational activity.

From financial point of view real estate is financial asset, important condition for current and future efficient activities of business entities and citizens.

As a component of market itself, real estate market has specific regularities: cyclical changes of activity and prices together with economic, investment, and other cycles; communication with other markets (e.g., exchange market, equity market) which favours capital transfer to the real estate market and real estate unit price rises etc. With it, cycles in real estate market development are not synchronous with cycles in other industries. The feature is rather important for real estate market. Turn-down in real estate market comes before turn-down in economics as a whole. And vice versa. Global financial crisis confirms the feature of real estate market. It also should be noted that on the one hand real estate market was the motive of crisis, and on the other hand just real estate market was greatly affected by the crisis.

It is necessary to eliminate negative effects of the crisis which influenced real estate market and to develop proper conditions for its future development as real estate market is one of the key sectors of economy in any country. Besides it is required to make scientific analysis of real estate market performance market operation in the current context.

It should be noted that real estate markets both in Poland and Ukraine are in the period of development. To some extent it determines delay in scientific analysis of its key regularities. Analysis of the world economic crisis effect on real estate markets of Poland and Ukraine will help to deepen learning laws and peculiarities of real estate markets performance in the countries.

Crisis Manifestations in Real Estate Market

As studies show crises in real estate markets are not new at all (Japan, 1989–1992; countries of Southeast Asia, 1997–1998; Finland, 1991; Mexico, 1990–1994 etc). That time they were either of regional character or of local one, and had other reasons and outcomes. Naturally, they differed on scale. Crisis used to impact specific branches within economics. Today crisis processes cross national boundaries, and real estate crisis of some country turns out to be crisis of global real estate market.

Up to the crisis in the USA the outburst of speculative investment bubble in Japan (1989) was the greatest collapse in real estate market during the last two decades (Asadzuma, 2005). That time prices for capital assets soared. It depended on expansion in the number of speculative contracts on the part of realtor companies, cut in bank rates, and national currency appreciation. Very quickly it raises incomes of households of this export-oriented country, worsen greatly situation with market agiotage and with speculative expectations concerning future price increase. It largely depended on policies of the government aimed at ease of credit and financial managing. It resulted in formation of speculative bubble in real estate market. As consequence cost of property sharp reduction (twice at once), bankruptcy of anchor companies of financial and construction sectors as well as real estate sector which played then important role in national economy took place. Phenomenon called deflation of capital assets originated. The recession lasted till 1992 but in Japan they still call it lost decade (Bilobrova, 2010).

Analysis of crisis events in real estate market which took part up to the current recession helped to determine problems the market faced before:

1. Ineffective monetary policy.
2. Poor development of financial system as a whole and bank system in particular.
3. Underdevelopment of the market infrastructure.
4. Formation of speculative bubbles and their outburst.

They were overcome with the help of monetary policy managing, state construction investment, services by banks and other financial institutions in real estate market. Even though reasons and course of the current crises are similar to Japanese one, it differs greatly. First of all it depends on the fact that boom conditions in the USA real estate market result from implementation of financial innovations, especially Sub-prime real estate mortgages and derivative mortgage securities unprovided with dollar equivalent. Today such problems of real estate market performance and development are the most acute:

1. Increase in credit non-payments and as a result bankruptcy of institutions engaged in mortgage credit and real estate sector financing.
2. Deterioration in demand for real estate units and associated reduction of their prices.

3. Runoff of construction investment and drop in construction itself.

It should be noted the all countries are involved in the problem. With it the extent turned out to be different.

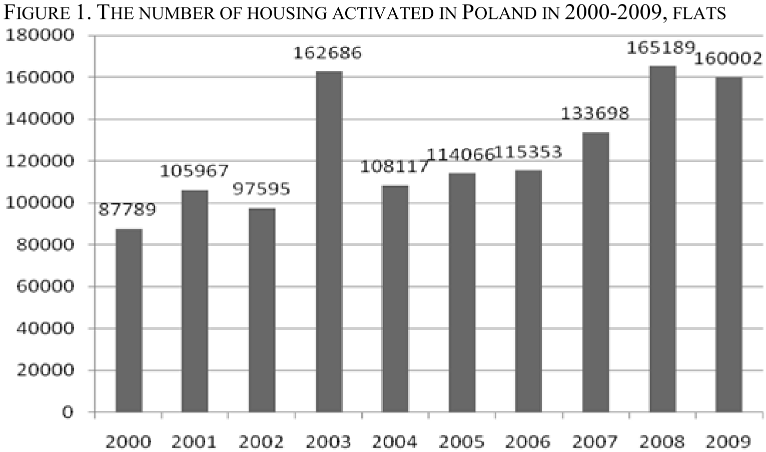
Real Estate Market in Poland

As for Polish real estate market, it was involved less. With it 2009 showed reduction in price for residential real estate. The reduction was not critical, but the time was rather difficult for real estate market. Meridian of price reduction was stated in June, when prices for residential real estate were 9% less to compare with the same period of 2008. Soon after, the situation started stabilizing. Improvement of general economic status in the country, increase in the number of people interested in buying dwelling favoured retardation of price reduction for residential real estate. Conditions of mortgage credit improved, and it resulted in runoff of supply of dwelling in primary market (Housing Market in Poland).

It should be noted that Poland differs from many countries thanks to rather good situation with mortgage credit and accordingly with developed mortgage market. Following example can confirm that. In 2000 in the country there were accommodated with mortgage loans to the amount of more than €2bln. In 2008 the sum was more than €43bln being 15,3% of GDP. Mortgage granting was not stopped in 2009 (it was reduced a little), and it favoured stabilization in real estate market.

Building attenuation of dwelling is negative result of the crisis. The number of permits issued for construction confirms that. Thus, there were hardly more than 41,000 instead of 60,000 which were issued quarterly from 2007 to 2008. During the first quarter of 2009 the number of built houses was 23,5 thousand to be twice less to compare with previous quarter (Polish Real Estate). With it, slowdown of housing construction rates pushes demand for it. It allowed to level situation out and by the end of 2009 year the number of housing activated was actually equally on the 2008 level (Figure 1).

FIGURE 1. THE NUMBER OF HOUSING ACTIVATED IN POLAND IN 2000-2009, FLATS



Source: Central Statistical Office of Poland, www.stat.gov.pl.

Simultaneously with slowdown of housing construction a very interesting trend takes place. The matter is that the number of commercial real estate property under construction increases although only €631mln were invested into Polish commercial property. The sum is the smallest one from 2003. That very time Poland got 26% of investment total volume into commercial property in Central and Eastern Europe (Polish Commercial Real Estate).

As practice shows segments of retail property and hotel property are the most investment- attractive ones. Thus, it is planned to introduce into commercial property market 510,000 sq. m. of sales premises square in shopping centers in 2010 (Polish Construction Portal). Despite recessionary events in real estate market, in 2008 share of hotel property within the overall structure of investment transactions increased from 6% in 2008 till 17% in 2009 (Polish Commercial Real Estate). First of all, interest in hotel property is connected with European Football Championship of 2012.

It is forecasted that thanks to football "Euro 2012" in 2010 building sector will have 5,6% increase. Besides Poland will have 15% GDP. As a result within the near 5 to 6 year considerable economic recovery is possible. It will be 6% a year. Naturally, it will also influence Polish real estate market.

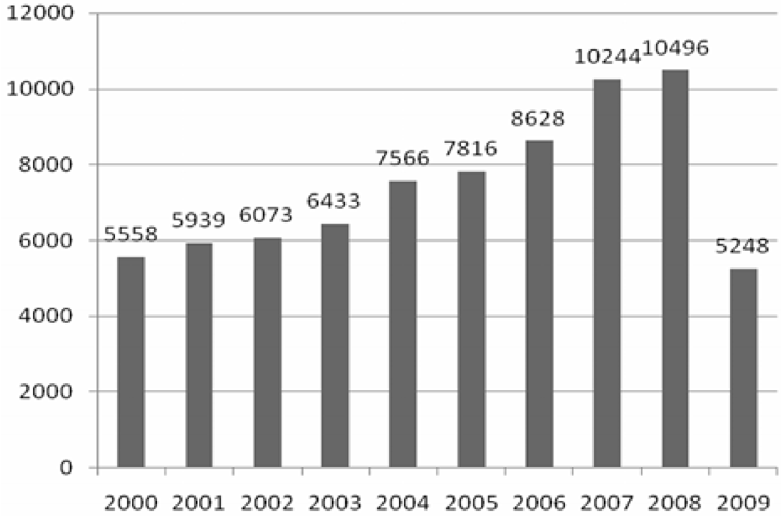
It should be noted that Poland is the demonstrative example of national real estate market confrontation to outcomes of the world financial crisis, the example of competent control of economic situation. That's why many investors focus on Polish real estate market. Both economic and political situations are rather stable in Poland, and Polish legal system becomes more favourable for foreign capital. So, real estate market in Poland – both housing and commercial – is safe investment. But investors' demand for real estate in Poland depends more on safety and stability than on profit maximization.

Real Estate Market in Ukraine

Many experts rejected an idea of mortgage crisis in Ukraine as the country had not conditions which led USA to it. But realness is different. In the USA the crisis resulted from market oversupply and mass security defaults. In Ukraine the situation is opposite. It means that mortgage crisis is available in Ukraine. It goes without saying that it differs from American crisis having its own features.

Thus, changes in Ukrainian real estate market started in August 2008, when 85% of Ukrainian banks raised rates on mortgage loans, and toughened requirements for loan debtors. The next step was a sanction by the National Bank of Ukraine to grant foreign exchange loans. It resulted in outflow of financial resources from the market, slump in mortgage market, and diminution in demand as 70% of housing were bought with the help of mortgage loans. Collapse of prices started (in some towns it was up to 60%). In little towns housing market declined. Mortgage tying-up factored into tying-up many projects under construction, and it resulted in building sector downswing. In 2009 (5248 thousand sq.m) housing activation shrank twice to compare with 2008 (10498 thousand sq.m), and became even less than in 2000 (5558 thousand sq.m) (SSC of Ukraine) (Figure 2).

FIGURE 2. ACTIVATING HOUSING IN UKRAINE IN 2000-2009, THOUSAND SQ. M



Source: State Statistics Committee of Ukraine, http://ukrstat.gov.ua.

It resulted in the situation that at the beginning of 2009 real estate market was second in rating of the most risky investment in Ukraine (Yescomb, 2008). As the study results show, real estate market investment will stay to be very risky for a few years.

To overcome negative consequences of the world crisis in construction in December 2009 Ukraine passed the Law "About Prevention of the World Crisis Effect on the Development of Construction Industry and Housing". The Law stipulates group of actions aimed at improvement of construction industry of Ukraine, ensuring housing rights of those citizens who need the state supporting, and housing construction support under the conditions of crisis. Besides the Law stipulates that the state will clear some share of housing price (30%) as the first installment. Other 70% those people who have need of their housing improvement will take the credits for small percentage (Law of Ukraine). But the Law like many other laws in Ukraine is not working. First of all, its fulfillment is slowed due to imperfection if not lack of other regulations essential for the Law implementation. Further, earnings by the majority of Ukrainian citizens are so low, that they cannot enable to obtain credit. Besides, up to today mortgage credit stays to be immobilized, and we are not talking small percentage.

As for commercial property, in 2008 slump in each its segment demand took place. First of all, it can be explained by serious business loss, immobilization of development plans for the majority of Ukrainian companies, and in some cases by complete closing economic actors who formed demand for commercial real estate. Reduction in prices took place to encourage sale. With it, the situation has favoured letting market development.

It should also be noted that the tendencies were formed against meltdown in all branches of Ukrainian economy during 2009. Some of them are still available.

Conclusions

Unfortunately, the article framework cannot give ability to make deep and detailed analysis of current problems in the real estate markets in Poland and Ukraine resulting from the world financial crisis. Nevertheless, we can come to some conclusions. Both in Poland and Ukraine real estate markets are not heterogeneous being at the stage of formation. It goes without saying the world financial crisis changed conditions of their performance. But studies show that influence was different.

Thus, Poland managed to avoid a number of the world crisis outcomes in real estate market, especially in housing market. It can be explained in such a way. First, Polish banks did not allow such risky mortgage credits as financial institutions of the USA which allowed credits from own funds. Every bank has rather elaborate mortgage mechanisms. What is more, despite rather developed market of mortgage credit, during economic growth of 2006–2007 considerable part of Polish banks granted less credits than attracted deposits. Second, majority of towns in Poland still have serious lack of housing. That’s why demand for it stays to be rather high. Different state programs and initiatives also favouring housing market development (e.g., “Rodzina na swoim”) are very popular now. Within the programs and initiatives the state helps to pay for housing credits. As practice shows, they are rather helpful. Third, prices for residential property did not put down drastically to compare with other countries. It is a very good factor for its fast recovery. Besides, Polish real estate market is at the stage of development, has a limited number of participants, and a low level of services specialization (however having pronounced tendency for increase). That’s why it can’t influence greatly the entire country economics as it is in the USA. Thus despite the fact that current real estate market in Poland reflects all problems of the country economics resulting from the world crisis it is specified by uneven development of its segments it is promising capital investment field.

For Ukrainian real estate market outcomes of the world financial crisis turn out to be more negative. Slash of mortgage credit and its complete discontinuation in future as well as significant reduction of business credit influenced consumer demand greatly, and it resulted in slump of real estate market volumes. Vital investment outflow from construction industry of Ukraine not only leveled down in primary real estate market. It resulted in construction distress. With it, at the expense of finance disposed by population from banks so called “deferred demand” had been formed. It may favour increase in к consumer demand in the real estate market. Besides, collateralized property is available in the market today which also can influence increase in supply. But there is no point to highlight “deferred demand” and mortgage housing. First, banks have in pawn no more than 5% of Ukrainian housing. Second, real estate in Ukraine is not in the list of the most risky investment. In other words, real estate investment may be justified in the longer term only. That’s why “deferred demand” investment into alternative financial instruments is quite possible. They are less risky and more profitable in the short-run. Furthermore, there is a chance of disposed from banks money runoff abroad. As for foreign investors, they are still observers of Ukrainian real estate market. Complex economic situation in the country, imperfection of legal framework as well as other factors restricts inflow of foreign investment into Ukraine including real estate market. Nevertheless it has potential in each its segment, and there is great potential for its future development on the eve of "Euro 2012".

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