

reas



Rental and Student Housing

**Emerging residential asset classes
in Poland**

Emerging asset classes

For the last 25 years the Polish housing industry concentrated on the development of dwellings for sale. Developers built up a well-functioning and profitable market by selling flats to individual homebuyers or small-scale investors. Now this trend is changing in favor of products for long-term institutional investors.

73%

of property professionals stated that residential and student accommodation are now mainstream investment sectors*

Things have changed recently on the residential sector in Poland. For the last 25 years the Polish housing industry concentrated on the development of dwellings for sale, and quite successfully so. As the key players in the business, developers built up a well-functioning and profitable market by selling flats to individual homebuyers or small-scale investors. They have however not created any product of interest to long-term institutional investors, nor have institutions been searching for investment assets in the residential sector in Poland.

This has changed in Poland in the recent quarters, as we witnessed:

- the first investments in the private rented sector;
- the first purpose-built student accommodation schemes;
- an increased interest of institutional investors in housing in its various forms;
- developers keen to build residential investment stock.

From a global perspective neither rental housing nor student accommodation are new asset classes. For many decades residential rental is an established asset class in various European countries, such as Germany, Switzerland, Austria, the Netherlands and Sweden. Though much younger, the student housing market has already been developing for more than two decades in the US and UK. As many as 73% of property professionals stated in the Emerging Trends Europe 2016 survey that "residential and student accommodation are now mainstream investment sectors". With yields compressing in their home markets and an overload of capital that needs to be invested in worthwhile investments, investors in both private rented and student housing asset classes are currently searching for investment opportunities elsewhere across Continental Europe. Many investors who have invested so far in commercial property are changing focus, too. **Poland has been on the radar of large scale investors for quite a while.** Yet, so far there have been no meaningful and sizable assets available on the housing market to invest in. But the first investments show that when there is a will, there is a way.

Rental housing

Up to 75% of single-family homes and flats in multifamily buildings in Poland are owned by private individuals. A huge amount of these is meant for rent and managed by low experienced, small buy-to-let landlords.

The private rented sector in Poland faces a watershed moment as the first institutional investors enter the market. Unnoticed by official statistics, the number of privately rented flats have grown in the large Polish cities in recent years. **Yet, the market is highly fragmented, unprofessional and not institutionalised. The vast majority of tenants in privately owned dwellings in Poland rent from small buy-to-let landlords. Most of these landlords are private individuals who own a single property and have no or little relevant experience or qualifications.** The next big step for the private rented sector are professionally managed developments of purpose-built rented accommodation backed by institutional investors.

The vast majority of the almost 14m dwellings in Poland are in private ownership. Up to 75% of single-family homes and flats in multifamily buildings are owned by private individuals. Also most dwellings in cooperative housing stock are privately owned by virtue of the housing cooperative ownership dwelling entitlement. Less than 10% of the housing stock is owned by municipalities or other public actors, which includes social rented housing and rental flats in the affordable segment. Polish official housing statistics provide information on who are the owners of dwellings but not who lives in them. There is an entire lack of data on how

many privately owned dwellings are owner-occupied and how many are rented. A conservative estimate, based on the volume of rental offers and incomplete data on income taxes paid for property rentals, would put the total share of the private rented sector to at least 10-20% of the dwelling stock in Poland's largest cities.

Though no one knows the real size of the private rented market in Poland, there is strong evidence that the sector has been growing significantly due to a rising number of buy-to-let investments. **Poland seems to have started following the path of traditionally homeownership dominated countries like the UK where privately rented properties have grown in number in recent years.** Renting has become an alternative for many Polish households. Tightened requirements for mortgage financing, problematic experiences with loans denominated in Swiss francs, a dynamically changing labour market led to households being uneasy about getting into long-term debt. Besides these current tendencies, housing needs and living patterns are changing fundamentally in favour of the rental sector. The young generation of Poles has a different attitude towards property. As elsewhere, the symbolic need for ownership is gradually becoming less convincing, while mobility and liquidity ratios become more prominent.

The change of attitude towards property of young generation of Poles is visible. The symbolic need for ownership is gradually becoming less convincing, while mobility and liquidity rationales become more prominent.

6-8%

yields on net operating income make the first foreign large-scale institutional investors to screen the Polish market for investment opportunities.

The migration mostly of young people to Warsaw and other large Polish cities is ongoing and fuels the need for rental properties, especially when it comes to young professionals.

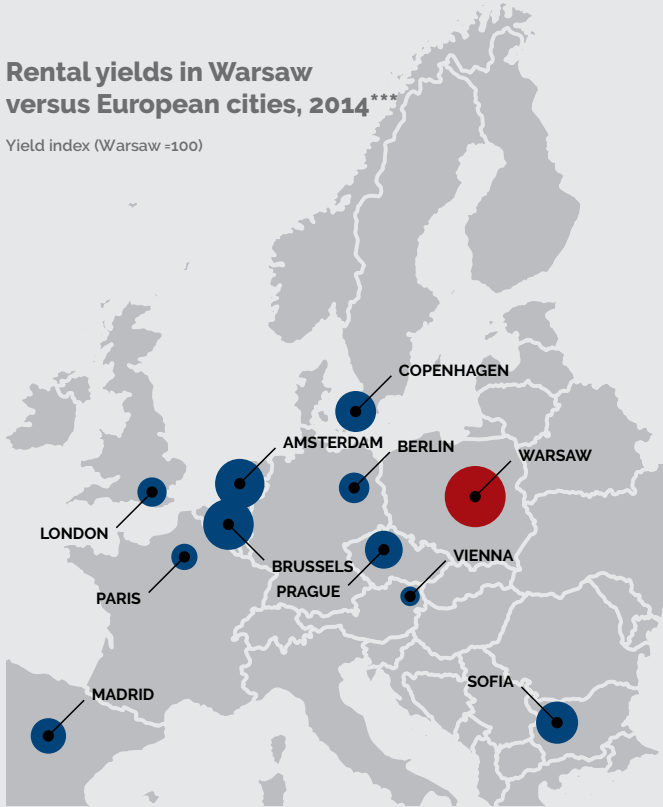
The changed attitude in Polish society is also visible in an increasing number of people that started calling for support of the rental housing market, including government members, interest groups and the media. The creation of the first Rental Housing Fund initiated by state bank BGK can be viewed as an reaction on these changes. With a budget of PLN 5b its aim is to build 20,000 rental flats to facilitate a mobile society and to "civilize" the widely unregulated sector, particularly when it comes to security of tenure. Yet, fund representatives have always emphasised that the fund is not a non-profit venture but that it should generate yields. Within 2015 the rental housing portfolio grew to approximately 900 flats, of which 380 units had been made available for rent: 124 flats in Poznań, 122 in Warsaw's suburb Piaseczno and 134 in Gdańsk. The remaining flats were commissioned from developers in residential projects in Warsaw (229 units), Kraków (45 flats), Wrocław (more than 100 units) and Katowice (146 units) and are planned to be put into use within the next two years. Further

1,500 flats were contracted at year's end, while up to 5,500 flats were planned to be put on the market until 2018.

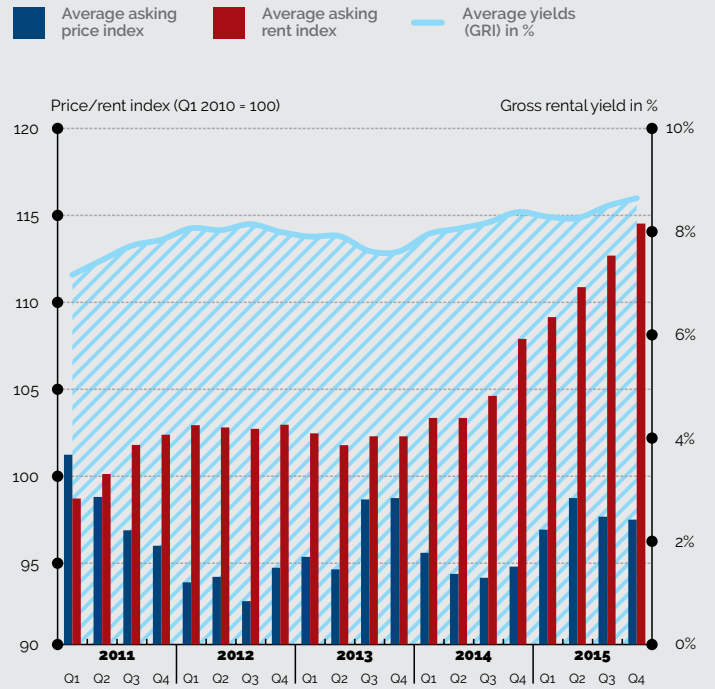
BGK's Rental Housing Fund is a pioneering enterprise for institutional investments in the private rented sector. Although, like all pioneers, it might still have some flaws, it is a good benchmark that investments in the rented sector are financially attractive and feasible. With more than 800 tenants standing in line for the first 49 apartments, its first investment in Poznan showed that demand is very high for an institutional rental offer. Tenants appreciate the promise of professional management and decent standards, while the rent level is equal to the local market average. The fragmented ownership of today's private rented sector along with the low level of regulation bears potential opportunities for a professionally-managed institutional market offer. The first foreign large-scale institutional investors are already screening the market for investment opportunities. What is more, the first investments by these actors in purpose-built rental developments are expected to occur still within 2016. With yields reaching more than 6-8% on net operating income before tax, nobody will hold it against them to invest in the thriving private rented sector in Polish main cities.

Rental yields in Warsaw versus European cities, 2014***

Yield index (Warsaw =100)



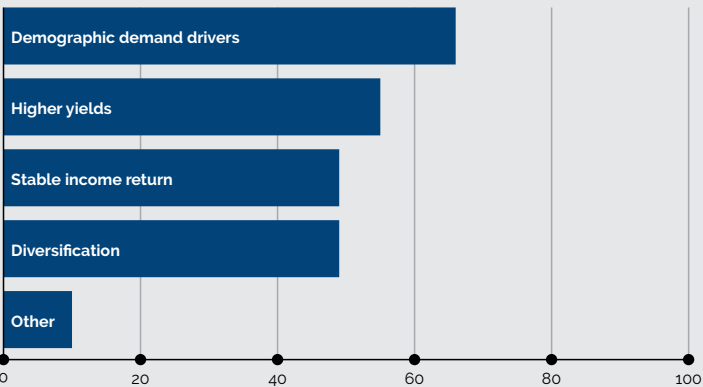
Development of yields on gross rental income (GRI) in Warsaw, 2011-2015**



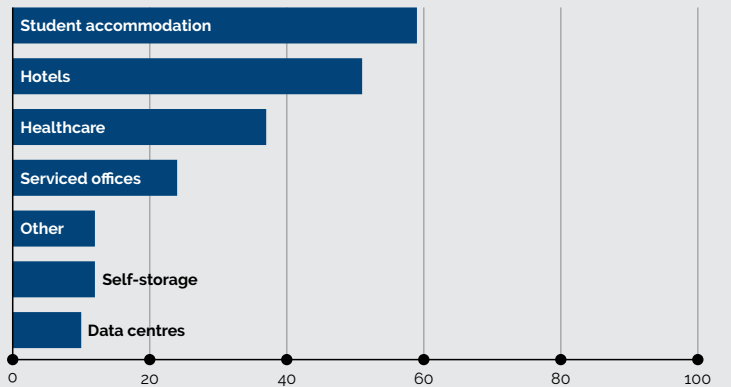
65%
OF PROPERTY PROFESSIONALS STATED THAT ALTERNATIVE REAL ESTATE SECTORS OFFER GOOD OPPORTUNITIES*

73%
OF PROPERTY PROFESSIONALS STATED THAT RESIDENTIAL AND STUDENT ACCOMMODATION ARE NOW MAINSTREAM INVESTMENT SECTORS*

Reasons for considering alternatives (%)*



Sectors being considered (%)*



* PwC and the Urban Land Institute. Emerging Trends in Real Estate® Europe 2016.

** Source: REAS.

*** Source: REAS based on Global Property Guide.

**** Source: REAS research and national statistics.

***** Source: GUS (Central Statistical Office)

Sector investment prospects, 2016 (%)*

Very good Good Fair Poor Very poor

High street shops	34	38	23	5	1
Retirement living	30	60	10		
Data centres	28	22	44	6	
Student housing	27	42	27	2	2
Shared/serviced offices	23	58	15	4	
Hotels	23	43	28	7	
Housebuilding for sale	22	41	24	12	
Private rented residential	22	53	22	3	
Healthcare	22	57	22		
Logistics facilities	21	56	21	1	

10-20%

of the dwelling stock in Poland's largest cities is the total share of the private rented sector

6-8%

annual gross rental yields achieved in Poland's largest cities

900

flats (finished and under development) contains the portfolio of BGK Rental Housing Fund - a pioneering enterprise for institutional investments in the private rented sector in Poland

1.5 m

student population in Poland

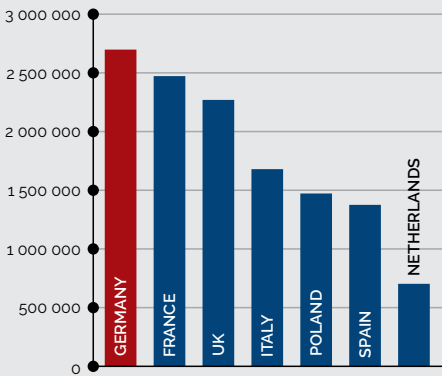
8.8%

student housing provision rate

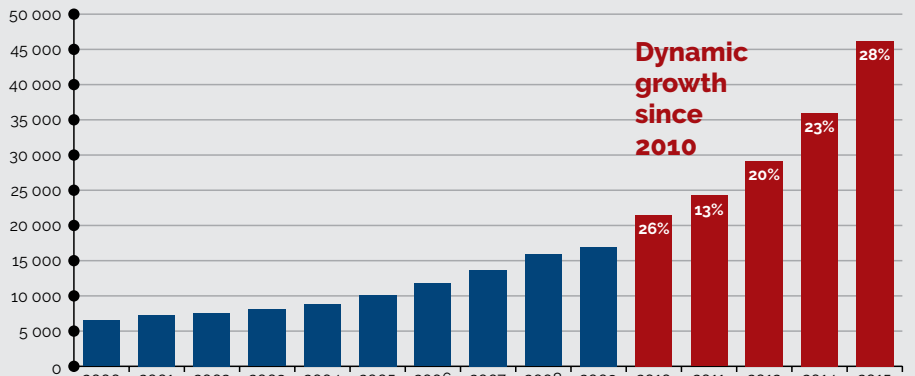
8.000

student housing stock announced to be provided by Griffin Real Estate within the next 3 years

Number of students in selected European countries 2014/2015****



Development of foreign student population in Poland*****



****	UK	Germany	Netherlands	Spain	Poland
Number of enrolled higher education students (latest available data)	2 300 000	2 700 000	700 000	1 400 000	1 500 000
Number of international students	388 000	301 000	87 000	75 000	46 000
Share of international students	17%	11%	13%	5%	3%
Beds in institutional student accommodation	524 000	259 000	100 000	90 000	1 250
National provision rate of institutional student accommodation	23%	10%	15%	6%	0.1%

Student housing

With 1.5m students, Poland has one of the largest student populations in Europe. What is more, the number of foreign students consequently increase year-on-year.

Investments in the student housing sector are currently in vogue in Europe. The US and UK markets have the most developed student accommodation markets worldwide. In contrast, student housing is still in its infancy across most of Continental Europe. Yet, the sector has been developing quickly in some countries. In others it still represents significant untapped potential for growth.

With 1.5m students, Poland has one of the largest student populations in Europe. What is more, the number of foreign students almost tripled over the past five years. Polish universities have dynamically expanded their cooperation within the Erasmus programme. Since 2005 the domestic Study in Poland programme promotes the country as a new European educational destination. Today there are more than 400 study programmes in English language in Poland, and their number is further on the rise. The high quality of these courses at relatively low prices has proven an attractive mixture, with medicine being the most appealing programme for foreigners from Europe, Asia and Northern America.

What is still missing though is a good choice of student accommodation. The quality of student housing in Poland cannot keep up with the quality of education it offers to foreign students. But not only foreigners demand more than to live in run-down student halls from public universities. Most Polish students have today different expectations than to live in multiple occupied rooms.

The youngest group of students today includes people born in 1995-1996. They expect and appreciate comfort. They care about convenience and a fair standard of living. The price is no longer the basic criterion that determines the choice of many students. Some universities have recognized that most of their buildings are well past their prime and that they need to invest in their student halls. But even if they renovate their stock, they cannot overcome certain limitations. The standard offer still consists of rooms with multiple occupancy, without individual kitchen facilities and with little amenities offered on site.

The majority of students does not live in university dormitories. In the whole country there are 504 student halls from public universities, offering a total of 137,000 beds. In other words, student halls cater merely for 8.8% of the student population in Poland. More than 90% of students live elsewhere. A bed in a student house from public universities is commonly the cheapest option of student accommodation. Thus, it caters mainly for the least affluent student groups.

A certain percentage of students stays in the family home during their studies. Another (rather small) share of students live on their own in flats owned by them or their families. Some parents view the purchase of a flat as a good investment. However, the majority of students rents flats on the residential market. A lot of students share flats. It is a good way to meet other students and to save costs.

The bright prospects of the student housing sector attracted a number of funds which are currently screening the Polish market for opportunities.

8.8%

Student halls in Poland cater merely for 8.8% of the student population and most of these buildings, are well past their prime.

Three to six students in a three-bedroom flat is a conventional circumstance. Renting a studio unit is a more expensive option. Also the offer of studios and small one-bedroom units is highly limited in Poland's largest cities and university towns. **Renting is not only much more expensive than to live in dormitories, it offers quite insecure tenancies on the still immature and not institutionalised rental market in Poland.**

There is no significant supply of privately operated student housing schemes in Poland, yet. However, the first investments have occurred recently in cities such as Wrocław, Poznań and Łódź. The investments are held by the Student Depot chain owned by Griffin Real Estate, a locally active investor who manages the Polish assets for Oaktree Capital and PIMCO, amongst others. The main product is made of self-contained studio units, with own bathroom and kitchen facilities. The standards are decent. The rents are not the cheapest. Amenities and services are offered. And, students are welcome – in contrast to the rental market where students are often seen as a problematic tenant group. **The private institutions standing behind the student housing scheme are professional and reliable. Conditions are transparent and the tenure is secure. Also living with peers commonly produce good student vibes.**

From the students' perspective, these first schemes are only a mere drop in the ocean of needs for accommodation choice in Poland.

For investors, they give evidence that there is demand for private student housing. Also they are a proof that there is a lot of students able and willing to pay relatively high rent levels for decent accommodation. Convinced in the prospects of the sector, the investors plan to expand their activities in the field. One investor announced to build up a chain of student housing schemes. Currently a number of funds are screening the Polish market for opportunities. Many locally active developers are eager to cooperate. Overall the prospects of the student housing sector in Poland are bright.

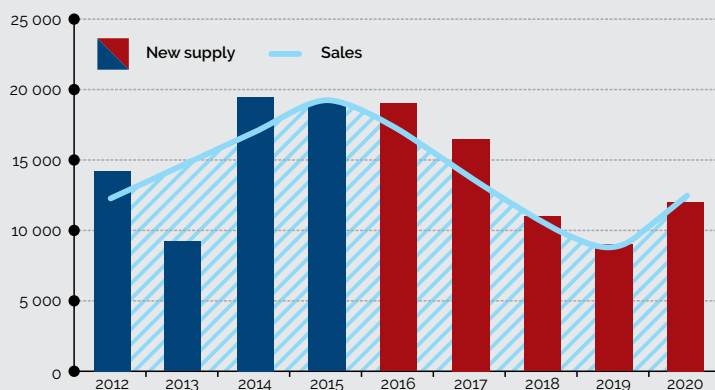
The student housing sector has all it takes to become a significant asset class for investors in Poland. **A strong rationale for investing in this segment is the enduring nature of the institutions that it caters for.** Student accommodation can produce rental income flows that generate high profits for investors. The pioneering investors can count on yield compression of their assets. Even though student lease is usually short-term, the flow of revenues is stable due to the scale and stability of the demand and limited supply of student accommodation. **Stable populations of students in the large Polish cities as well as the growing number of foreign students create a firm foundation of demand for student housing investments.** Moreover, they promise high returns on investment for large institutional investors who decide to take a plunge into this segment of the Polish market.

Market outlook

Residential market forecast

A supporting factor for growth of both asset classes is the forecasted development of the primary residential market. In 2015, the residential development industry experienced its best year ever in terms of number of transacted dwellings, with 51,800 units sold in the six largest cities (Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź) alone. It will be difficult to repeat this record in 2016 again. Moreover, believing in the cyclical nature of the market, we may expect a slowdown period after the past six years of growth. Thus, more developers will be willing to look for alternative customers. And, institutional investors seem the logical answer capable to offset the decreased demand by individual homebuyers and small-scale investors.

Residential market forecast – a chance for institutional investors



In 2016 we are likely to observe the first investments of foreign institutional investors in private rented assets in Poland. Due to the characteristics of the Polish housing stock, these investments will be forward deals in purpose-built rental assets developed by locally active developers. Based on press releases and public announcements, we might also see Griffin Real Estate and other locally active investors building up a portfolios of rental assets. Besides the Rental Housing Fund of state bank BGK plans to further expand their rental property portfolio. These market developments will attract further investors who will eventually make the decision to invest in the Polish rental market. On the whole, the private rented sector is predicted to experience a strong impetus in 2016.

Likewise, we expect a dynamic market growth in student housing in Poland in 2016. Just recently, Griffin Real Estate announced to increase its stock up to 8,000 rooms within the next 3 years. Moreover, there are quite a few foreign investors close to take action and enter the market. Some of them are already on the market and plan to close the first deals in student accommodation still within 2016. Once these investments will be on the market, the attitude of developers to deliver investment products to institutional investors will rise as well. The Polish student housing market is predicted to grow quickly within the following years.

About REAS

REAS is an advisory company specializing in issues relating to the residential market. Since 1997, we have been providing advisory services to developers, banks and investors and other entities operating in the residential market, effectively supporting them in planning and execution of their projects.

Over the last 5 years we were engaged in more than 2.6 thousand of advisory projects for 253 different clients. Since the year 2000, REAS has been conducting continuous monitoring of the primary residential market, accumulating data on projects in a database based on the GIS system. This knowledge allows REAS to offer a broad range of market analysis services and to devise long-term market forecasts supporting the process of strategic planning.

REAS provides advisory services at all stages of the investment process, supporting the developers in the process of designing and preparing a product with the best market potential and competitiveness. The implemented advisory projects feature the following services: location analysis, recommendations regarding the project-mix and functionality of residential units, opinion and rec-

ommendations regarding architectural designs, pricing strategies and units' price lists, and recommendations regarding marketing and sales strategies. We also offer consultancy regarding the Developer Act, including preparation of information prospectuses.

REAS specializes also in valuations of investment land and existing residential buildings. The valuations are conducted by certified property valuers with many years of experience allowing them to use both domestic and foreign valuation standards, i.e. British (RICS), European (TEGOVA), American (USPAP) and international (IVSC).

Thanks to our long-term cooperation with institutions financing the residential market in Poland and the recognized reliability of our business plans, valuations and feasibility studies devised by the company, REAS is able to effectively support investors in the process of obtaining financing for new residential investments. We also provide transaction advisory services regarding the disposal and acquisition of residential development projects, rented assets, student accommodation and investment sites.

Our key services include:

- Market research, analysis and forecasting;
- Competition monitoring and analysis;
- Highest and Best Use studies;
- Development consultancy;
- Property valuations and financial feasibility studies;
- Residential for sale, private rented sector, student accommodation, senior housing, condo-hotels and second homes market consultancy;
- Capital raising and search for joint venture and equity partners;
- Investment sites disposal & acquisition;
- Due diligence and acquisition/disposal of assets, portfolios and companies
- Procurement of residential rental assets



Paweł Szejter

Managing Partner,
Vice President of the Board

pawel.szejter@reas.pl



Maximilian Mendel, PhD, MRICS

Partner,
Transaction Advisory

maximilian.mendel@reas.pl

The information presented in this publication should not be construed as professional advice or services. You should consult REAS or other professional advisors familiar with your particular factual situation for advice before making any decision. REAS Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa assumes no liability or responsibility for any errors or omissions in this publication. Except where noted otherwise, all publication contents are Copyright © 2016 by REAS Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa. All rights reserved.

© Copyright 2016 REAS

www.reas.pl