cutting through complexity

KPMG IN POLAND

The Luxury Real Estate Market in Poland

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Contents

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Introduction

The luxury residential property market in Poland is still at a relatively early stage of development. In comparison with Western Europe it is characterised by relatively low price levels and a fairly small number of truly luxurious properties. However, the situation is changing, with some prestigious real estate investments having been completed in recent years, notably in the high-end apartment segment. Subsequent projects are either being planned or under construction, and within the next few years the annual value of transactions on the market of new luxury apartments in Poland should exceed PLN 500 million.

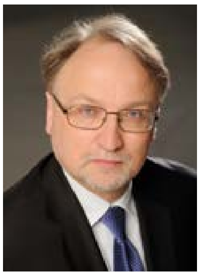
The demand for luxury residential real estate has been on the rise, and the market has good prospects. Poles lag behind Western Europeans in terms of assets owned, but salaries and wages in Poland are rising and the standard of living is improving. The number of wealthy and rich individuals (or those aspiring to this status) is increasing, and so is the number of potential buyers of luxury properties in Poland.

Considering this high potential, KPMG in Poland and REAS decided to prepare a joint report and provide a concise analysis of the situation on the luxury residential property market, with a special focus on the luxury apartment segment. The report does not cover non-residential real estate such as high-end hotels.

When preparing the report, we combined the experience of REAS, which is the only company in Poland to have conducted ongoing monitoring of the residential market since 2000, with KPMG's expertise regarding the preferences of wealthy and rich Poles, gained during the work on previous editions of the report on luxury goods in Poland.

We would like to extend our thanks to all organizations, companies and individuals who took part in the preparation of this report. We believe that it will provide readers with valuable insights and stimulate further debate about the luxury real estate market in Poland.

Steven Baxted
Partner, Head of the Building,
Construction & Real Estate Group
KPMG in Poland



Kazimierz Kirejczyk
President of the Management Board
REAS

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Executive summary

The value of the primary market of luxury residential real estate in Poland amounts to approx. PLN 500 million

Luxury apartments are responsible for the largest part of this market in terms of value. The annual number of apartment sales ranges from 160 to 180, and the total transaction value amounts to PLN 440–460 million. The number of newly constructed residences (defined as detached, single family homes) sold annually can be currently estimated at 20–25 whereas the total value of those transactions reaches PLN 50–57 million.

Transactions covering luxury apartments represent approximately 1% of all residential property transactions in the country's major cities

In the case of luxury apartments, the following categories are being distinguished: firstly, buildings which comprise only large, luxurious premises and, secondly, individual unique apartments located on the top floors of buildings with a somewhat lower standard. New properties which can be classified as luxurious are located almost exclusively in Warsaw, Kraków, Wrocław, the Tri-City (Gdańsk-Gdynia-Sopot agglomeration), Poznań and in their vicinity.

The prices of premises delivered as bare shell in the subsegment of luxury apartments start at about PLN 1 million

The most expensive deals reach the value of PLN 10 million. Maximum prices per one square metre obtained for unique premises in the high-end apartment segment reach PLN 65,000 in Warsaw, and approx. PLN 40,000 in Wrocław and Kraków. Maximum prices in Poznań and the Tri-City stand at around PLN 30,000 per square metre.

74% of apartments are offered exclusively in bare shell condition

The entire apartment segment, which is estimated to represent the upper 5% of all residential units (both apartments and flats), can be subdivided into two subsegments: standard apartments (upper-middle level) and luxury apartments (high-end level). The vast majority of premises in the entire apartment segment, i.e. nearly three quarters, are offered only in bare shell condition, where buyers are required to complete their own finishing works. Fully finished premises (in turnkey condition) are offered only for 5% of apartments, primarily in residential tower buildings where it is difficult to undertake individual refurbishments. In one-fifth of the investments, developers offer an optional finishing service to property buyers.

61% of the richest Poles, earning over PLN 20,000 gross a month, claim to own a luxury property

An even greater share of people who declare owning luxury real estate (84%) can be found among *high net worth individuals* (HNWI), i.e. those whose liquid assets (e.g. cash, shares or real property other than their homes) reach or exceed USD 1 million. This data comes from a survey conducted by KPMG among affluent and rich Poles. Poles buy luxury properties nearly exclusively in their own country. Only 1% of the survey respondents claimed to own luxury real estate abroad.

On average, affluent and wealthy Poles think that the minimum price for an apartment to be considered luxurious is approx. PLN 16,500 per square metre

The study conducted among affluent and rich Poles has shown that people earning PLN 10,000 to 20,000 a month believe that the minimum price of a luxury apartment is nearly PLN 16,000 per sq.m., whereas for those earning over PLN 20,000 the price of luxury starts at PLN 17,000 per square metre. This amount is even higher (nearly PLN 20,000 per sq.m. on average) in the eyes of key buyers of luxury goods and services, i.e. those defined as *high net worth individuals* (HNWI). According to KPMG estimates, the number of HNWI in Poland totalled approx. 47,000 in 2014.

In a few years' time, the number of transactions concluded annually on the luxury real estate market in Poland should exceed 250

The current size of the Polish market and the price levels justify moderate optimism. The number of apartments with prices exceeding PLN 17,000 per square metre sold annually in the five largest urban centres in Poland should exceed 250 within the next few years, and the total market value in gross prices should cross the value of PLN 500 million. The market will gradually grow as the Polish financial elites increase their income and as the richest Poles gradually abandon the idea of building suburban residences in favour of urban living.

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The luxury real estate market in Poland

In comparison with global leaders, the luxury real estate market in Poland is still at an early stage of development and can be described as rather modest. The total value of transactions on the primary market (luxury apartments and residences) amounts to approx. PLN 500 million per annum. It is estimated that the value of the secondary market exceeds that of the primary market approx. 1.5–2.5 times.

3.1 The function of luxury real estate

On one hand, luxury residential properties satisfy the housing needs of their buyers; on the other hand, much like other luxury goods, they emphasise high social status. In many cases, buyers own at least a few properties, one of which is their primary place of residence whereas the others are holiday residences or city apartments, used similar to a hotel by the owners, their families or friends. Buyers of luxury properties are more likely than other buyers of residential properties to perceive real property as an investment or a way to deposit capital. As a result, the segment of luxury real estate is characterised by demand for houses and apartments of various size, in various locations and with varied characteristics. The sums spent on buying, finishing and furnishing such properties depend on their main function, the buyers' level of affluence, individual preferences, family situation as well as their place of work.

At the same time, it needs to be stressed that while average-income households commonly opt for buying a standard flat, very affluent individuals often decide to build their own residence: a large house on a spacious land plot, constructed and furnished in accordance with the owners' individual preferences, based on original designs developed by architects and interior designers. This is particularly true for people who have a strong attachment to a specific city. On the other hand, apartments are more likely to be chosen by people who run their own business or engage in artistic activity on the European or global scale.

3.2 The history of the luxury real estate market in Poland

During the post-war period residential construction was developing very intensively, yet none of the projects completed before 1995 could be labelled as luxury apartment buildings. The segment of luxury apartments in Poland emerged in Warsaw in the late 1990s, with the following factors serving as key drivers:

- affluent Poles returning from emigration sought places to live, as they assumed positions in public administration or business; they were interested in premises made to a standard corresponding with their new social status;
- high rents resulting from rising demand for high-standard properties among foreign tenants, such as mid-level diplomats, managers at newly established branches of foreign companies, and consultants from national and international aid agencies (such as the World Bank Group and the USAID);
- the emergence of financial elites (bankers, entrepreneurs, stars and celebrities) who bought attractive premises;
- the low finishing standard in existing properties (flats, apartments and buildings alike) as well as functionality which failed to meet modern expectations.

After 2000, the number of potential tenants dropped sharply, and with supply meeting the existing demand rents started to decline quite rapidly. New key buyers emerged: Polish elites, entrepreneurs and artists, and, in the course of time, also politicians. Another stage of the fast-paced development of the luxury apartment segment coincided with the boom on the residential market in 2006–2008. During that time, many foreign development companies launched their businesses in Poland, bringing with them their experience from other countries. In the segment of high-end apartments, construction of a number of luxury towers began: first came Złota 44, then Cosmopolitan in Warsaw, Sea Towers in Gdynia and Sky Tower in Wrocław. A few other projects with a similar profile made their ways to the designers' drawing boards. On the demand side, a greater role was played by foreign buyers who began to invest in Poland for speculative purposes. However, starting from the second half of 2007, the interest from such customers began to decline.

The international banking and financial crisis, the halt in the lending in Swiss francs and a radical change in buyers' sentiment in response to the widespread news about the economic crisis forced companies to revisit their strategy in the segment of luxury apartments. Some projects (e.g. Złota 44 or Sky Tower in Wrocław) were withdrawn from the market for a few months in order to be redesigned. In other cases, the price lists were brought closer to market realities, and some investments which were already under way got postponed. Towards the end of 2009 the market situation began to stabilise and the sale of residential premises, including luxury apartments, returned to average levels.

> *The potential of the luxury property market in Poland shows no signs of weakening. On the contrary, we are observing a steady growth in the demand for premium segment flats. In my estimation the situation will remain unchanged in the upcoming years. In our development projects soon to be handed over for use – Angel Wawel in Kraków and Ovo in Wrocław – we have already sold the vast majority of apartments. Favourable economic changes and the improvement of living standards in Poland are conducive to decisions to invest in luxury property. Customers increasingly consider buying a flat as a way to invest in their own comfort and security.*
>
> *We are observing interest in large surfaces and in the availability of facilities such as SPAs, swimming pools, gyms, fitness centres, security monitoring or well-kept gardens. Would-be residents regard an investment comprehensively: rather than focusing solely on their own place, they pay attention to the surroundings and the common space. An adequate standard of these spaces is a precondition for the property to be granted the luxury property status. However, location remains the principal factor. As city centres and places with good access to them have only limited capacity, apartments situated there will always attract more interest than those on the outskirts. That is why we try to combine three elements – capital, location and lifestyle – in each of our investments.*

Ron Ben Shahar
Partner, Angel Poland Group

3.3 Segments of the luxury real estate market in Poland

According to the criterion adopted by various authors, including Sotheby's report on the global market of luxury residential properties[1], luxury properties have a value of over USD 1 million and are usually owned by *ultra high net worth individuals* (UHNWI). This label is applied to holders of assets worth over USD 30 million. There are over 200,000 such individuals worldwide. Among them, 79% own two or more residential properties. Another way to define the size of the luxury segment, taking account of the differences in prices across countries and cities, is to assume that this segment is made up by the most expensive 5% of all units on the market.

The Polish market of luxury real estate is modest in comparison with global leaders and could not really be confined to properties with a minimum value of one million dollars. In REAS analyses, dwellings in multi-family residential buildings are subdivided into two main segments: flats and apartments. Depending on the local situation, apartments represent approx. 4–6% of all residential units built in Poland's major cities.

According to popular understanding and the Polish media, all 'apartment-type dwellings' are considered luxurious. However, REAS analysis of the apartment segment distinguishes between two subsegments: *upper-middle apartments and high-end apartments*. Classification to one or the other segment is based mostly on criteria such as location and quality, applied to the actual premises as well as to the building or estate. Moreover, the pricing criterion plays an auxiliary role in the segmentation. On the other hand, premises are not excluded from the segment of apartments based on gross floor area, as is sometimes done by analysts.

The prices of dwellings in bare shell condition in the high-end subsegment start at approx. PLN 1 million whereas the most expensive ones reach nearly PLN 10 million.

The luxury property market can be subdivided on the basis of property type (an apartment or a single-family house) or the seller's status (a company or a private individual). The latter category usually overlaps with the subdivision into newly constructed or completely overhauled facilities versus secondary market properties (houses or flats), i.e. those bought from the previous owner.

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[1] *Wealth-X and Sotheby's International Realty Global Luxury Residential Real Estate Report 2015,* which presents trends in the preferences of UHNW buyers with regard to luxury residential properties worldwide and, in particular, specific expectations and behaviours as well as locations which play a key role for that segment.

Primary market – apartments

The apartment market includes buildings comprising only large, luxury premises, as well as individual unique premises located on top floors of buildings with an otherwise somewhat lower standard. In order to emphasise the uniqueness and exclusivity of such premises, market players started to apply the US-derived label of 'penthouses', using it also to describe flats located on the top floors of buildings finished entirely to a luxurious standard.

Lofts, i.e. residential premises in reconstructed former factory facilities, are a particular type of luxury apartment. Quite commonly found in Western European cities, lofts are relatively sparse in Poland. This results mostly from the insufficient number of conveniently located historical industrial buildings in the most expensive Polish urban agglomerations. The Scheibler Lofts in Łódź are the largest facility of this kind in Poland. However, as that investment turned out to be too large for the local demand, it was ultimately finished to a standard which was far from luxurious. The definition of the luxury apartment market should also include individual transactions covering unique holiday apartments, also offered by some development companies.

Primary market – residences

A residence is defined as a luxurious stand-alone single-family house, usually located in a large garden, in an urban or suburban villa-type neighbourhood. Since individual needs and preferences need to be satisfied, the number of estates with new residences built by development companies is small, and the few investments of this kind are rarely found outside of Warsaw, Kraków, Wrocław, the Tri-City or Poznań, all of which are the main business destinations for most major Polish companies and branches of foreign corporations.

The offering prices for properties (a house plus a land plot) usually start at around PLN 1.5 million. There are also exceptions, such as some investments made to a very high standard but located on cheaper land plots, away from major urban centres. Such facilities can be purchased at prices starting from a few hundred thousand zlotys, of course in bare shell condition, which represents approximately half of the total costs of a fully finished property in this segment. The upper pricing limit for residences offered by development companies may reach even PLN 6 million per building in bare shell condition, without any interior finish.

The primary market of luxury properties in Poland

	Annual number of transactions	Annual value of transactions (PLN million)
Luxury apartments	160-180	440-460
Residences	20-25	50-57
Total	180-205	490-517

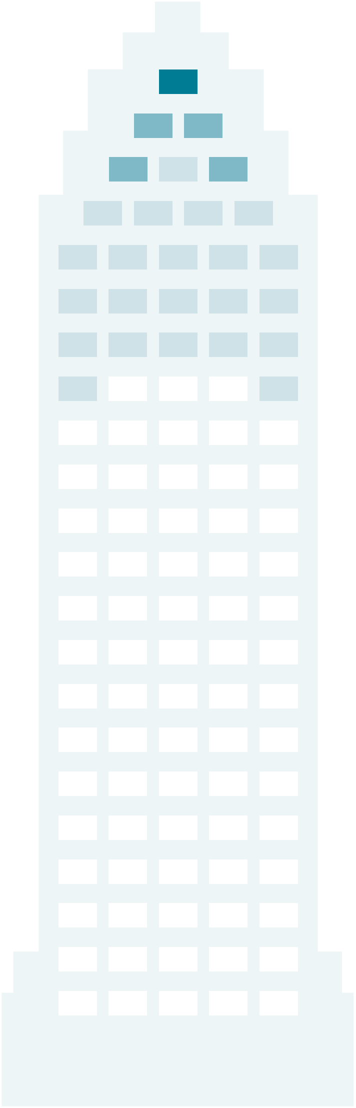
Source: KPMG in Poland and REAS, monitoring conducted by REAS after Q1 of 2015
Based on data from five urban centres (Warsaw, Kraków, Poznań, Wrocław and the Tri-City).
Apartments and residences were classified on the basis of multiple, complex criteria.

Luxury houses usually have a usable area of 200 to 500 square metres, and they are highly flexible in terms of functional arrangements. The prevailing aesthetic solutions make references to history (Ventana, Tesoro Ivory Residences); however, premises with modern architecture are also available.

Apart from a porter's lodge at the entrance gate, such wholly fenced estates have a round-the-clock security service. Alongside land plots belonging to house owners, such estates usually have a shared park, tennis courts and other recreational facilities. In Poland, no luxury estate has been built in the immediate vicinity of a golf course yet, despite some planned investments of this kind.

2007–2008 saw the highest number of houses sold by developers in Poland with prices starting at PLN 1.5 million and reaching around PLN 4 million for a building in bare shell condition. However, after the collapse of Lehman Brothers, the number of residences sold dropped radically and now stands at around 20–25 per year. The value of that market segment in gross prices (incl. VAT) can be currently estimated at PLN 50–57 million (offering prices).

One of the reasons behind the small scale of the developer market in this segment may also be related to taxation policy. For residential premises with an area of up to 150 sq.m., and single-family houses with an area of up to 300 sq.m., VAT is computed at a preferential rate (7% until the end of 2010, currently: 8%). For flats or houses with a larger area, the part above the limit is taxed at the standard rate, i.e. 23%.



■ **High-end apartments**

Approx. **1%** of all residential units developed

- the best locations in prestigious districts;
- outstanding architecture, ensuring a unique image of the investment;
- unique finishing materials;
- residential premises with greater-than-normal gross floor area;
- large glass facades;
- high degree of privacy;
- spacious lobby with a reception area (except small city villas);
- round-the-clock security;
- extra recreational features for residents only.

Prices for Warsaw: starting from **PLN 18,000 per sq.m.**, prices for major cities outside Warsaw: over **PLN 15,000 per sq.m.**

■ **Upper-middle apartments**

Approx. **4%** of all residential units developed

- central districts and the best subcentral locations;
- original, attractive architecture;
- elevations made, at least partly, with sophisticated materials;
- custom-designed details of elevations and interiors;
- greater-than-normal areas of apartments;
- high degree of privacy;
- reception area for a building or a group of buildings;
- extra recreational features for residents and non-residents.

Prices for Warsaw from approx. **PLN 12,000 per sq.m.**, for major markets outside Warsaw: approx**. PLN 10,000 per sq.m.** or more.

■ **Flats with a premium standard**

Approx. **22%** of all residential units developed

- subcentral locations or outskirts of the city;
- good access to public transport and social infrastructure;
- convenient access to main areas where employers are located;
- high-density housing;
- flats with varied usable area in various categories;
- balconies/terraces in each flat, except one-room flats;
- underground parking accessible via lift.

Prices for Warsaw from approx. **PLN 8,000 per sq.m**. to **11,000 per sq.m.**, for the largest markets outside Warsaw: approx. **PLN 6,000 per sq.m.** or more.

□ **Flats with a basic standard**

Approx. **73%** of all residential units developed

- subcentral locations or outskirts of the city;
- usually far from the main areas where employers are located;
- a large scale of residential complexes, high-density housing;
- some parking spaces located outside the buildings;
- corridor-like layout of buildings is acceptable;
- a large number of flats accessible from a single staircase;
- cheaper finishing materials on elevations and in shared interiors;
- areas of flats and common spaces are limited to the functional minimum.

Secondary market

In addition to the estimations related to the developer market, we must also mention the secondary market, covering old houses and villas, as well as modern houses and apartments in old tenement or new apartment buildings. This segment also includes individual penthouses in standard residential estates which were finished to a luxury standard and offered on the secondary market at prices reaching a few million Polish zlotys for premises with an area of approx. 100–150 sq.m. (approx.PLN 20,000 to 35,000 per square metre).

Unique, individual premises with a large area are offered at prices reaching a dozen or so million zlotys. In this case, properties are classified as belonging to the secondary market only because they are not sold by the original development company but, as a rule, by a natural person. On the other hand, such premises have usually not been inhabited after completion. If used at all, they served, for instance, as a set for the film-making industry. Finally, this category also comprises unique transactions involving palaces with parks, manor houses, castles and other similar unique properties. According to estimates, the value of the secondary market is usually approx. 1.5–2.5 times higher than the value of the primary market. However, similar to the arts market, historical residences are among the commonly recognised and desirable symbols of luxury. Therefore, one can justifiably argue that the sales of luxury properties on the secondary market may be even higher than the estimates.

While the value of the market of new properties, particularly apartments, is relatively easy to assess for entities that systematically monitor the market, information on residences or luxury single-family homes erected by their owners is not available from any official statistics.

> *We can observe two segments of various development trends on the luxury apartments market in Poland. On the one hand, it is created by the residential real estate sector, which the main dominant is constituted by individual investors and the largest turnover is generated by the secondary market. On the other hand, there is a strongly growing sector of luxury apartments, whose dynamics are created by both newly built residential projects as well as projects aimed at revitalizing historical buildings – tenement houses and other unique historic buildings.*
>
> *From the developer's perspective to restore the former glory of historic buildings and to adapt them for luxury residential apartments is much more difficult and prolonged. They require not only much higher costs, but also expertise and a sense of responsibility for the historical heritage of the place.*
>
> *In the longer perspective, the advantages of this type of properties are not to be underestimated – it is an investment in buildings which status and value are incomparable to newly built projects.*
>
> *In case of new buildings – their uniqueness and luxury are sometimes only an element of the created image. On the other hand historically located housing investments hold the inimitable valor of uniqueness – both in terms of architecture as well as historical context of the location – which make that uniqueness authentic. Original details and finish elements which have been meticulously revitalized combined with highest class materials result in timeless quality, which is an imitable value.*
>
> *Uniqueness, prestige, boutique character, excellent location in the historic heart of the city and the very limited availability of such places to live make them the most desirable and sought after objects on the market.*
>
> *Moreover, as the example of more mature markets shows this type of properties are also the most resistant to changes in economic conditions and their value over time will keep growing – which for the most affluent customers is also very important from the investment point of view. In particular, according to forecasts, luxury real estates will constitute an increasingly important part of the investment portfolio of the wealthiest Poles.*
>
> *Our company sees great potential in this sector, therefore, we have already secured several historical properties, including tenements at Foksal Street in Warsaw, which we plan to revitalize and transform into a unique residential property.*

Jeroen van der Toolen
Ghelamco, Managing Director, Central & Eastern Europe

4

The situation on the apartment market in Poland

Apartment markets of significant size can be found in the five urban agglomerations enjoying the best economic situation, i.e. Warsaw, Kraków, the Tri-City, Wrocław and Poznań. The number of apartments built in Poland during the years 2009–2014 exceeds 6,000, of which around a thousand can be classified as belonging to the high-end segment. Warsaw is the main market, with the importance of Wrocław and Kraków growing in recent years.

4.1 Market size in Poland's main urban agglomerations

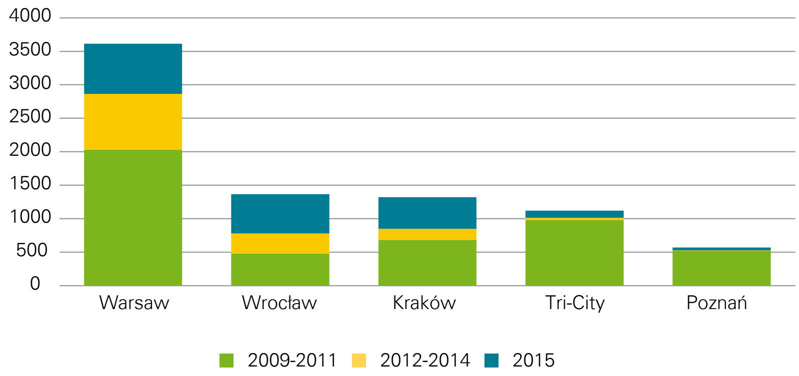
Warsaw is definitely the largest market in Poland in terms of residential units completed, as well as in terms of the entire apartment segment. In 2009–2014 more than three thousand apartments were built here, and further 900 premises from this category are planned to be finished in 2015 and beyond. Among the aforementioned three thousand, approx. 400 were high-end apartments and approx. 300 high-end apartments are currently under construction.

The markets of luxury properties in Wrocław and Kraków are close in size, in terms of projects finished until 2014, and those currently being realised. However, it should be stressed that the average investment project in Kraków has a smaller scale than that in Wrocław, which is connected with the historical nature of the former Polish capital and the absence of investments comparable to Wrocław's Sky Tower.

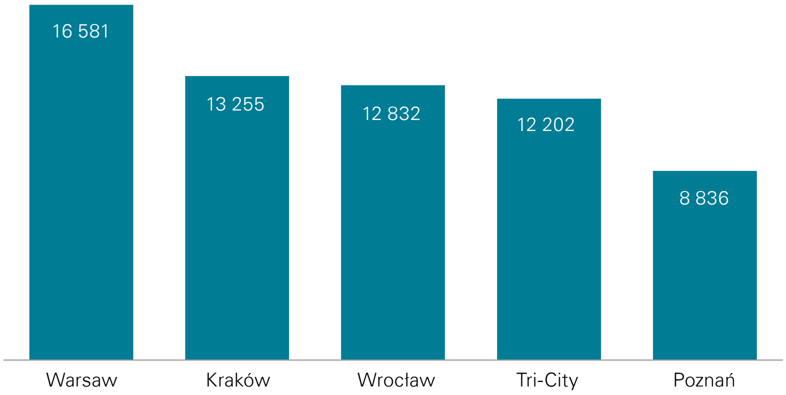
As regards Gdańsk, Gdynia and Sopot (the Tri-City), the scale of luxury investments clearly shrank after 2011. However, a few very prestigious locations are awaiting new projects, including the area of the Granary Island (Wyspa Spichrzów). Among the five major agglomerations, the Poznań market continues to be the smallest, which is due to the size of the city, the profile of investments in that location and easy access to the centre from suburban estates.

The average prices throughout the apartment segment correspond with the number of premises offered, i.e. the highest prices are found in Warsaw (PLN 16,500 per sq.m.), with Wrocław, Kraków and the Tri-City having similar pricing levels (PLN 12,000-13,000 per sq.m.), and Poznań closing the ranking (approx. PLN 9,000 per sq.m.).

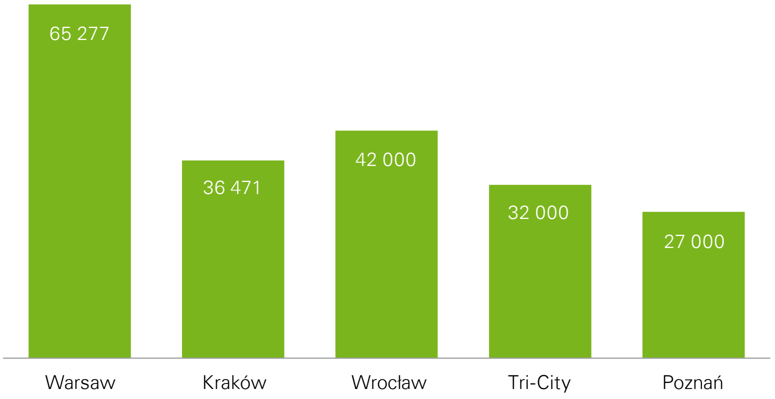
Number of apartments released for use and planned for release in 2009–2015



Average prices of premises (PLN per sq.m.) in the apartment segment offered in 2009–2015 in the five analysed agglomerations



Maximum property prices (PLN per sq.m.) in the high-end apartment subsegment offered in 2009–2015 in the five analysed agglomerations



Source: KPMG in Poland and REAS, monitoring conducted by REAS after Q1 of 2015

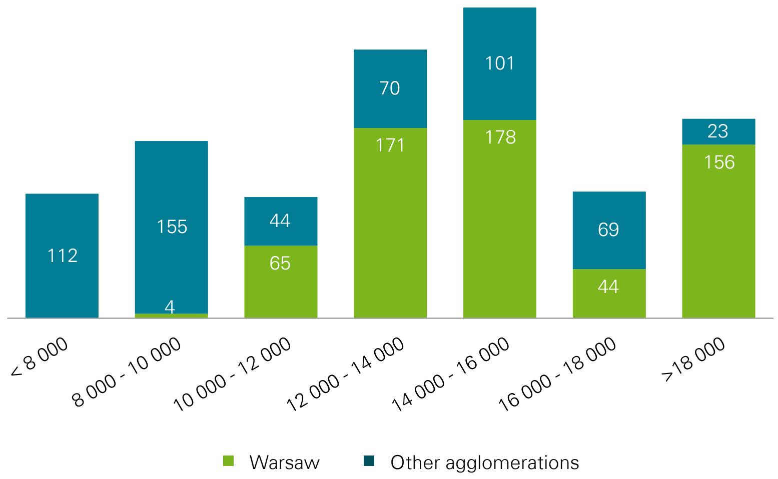
Maximum prices obtained for unique premises in the high-end apartment segment are PLN 65,000 per sq.m. in Warsaw, with approx. PLN 40,000 per sq.m. for Wrocław and Kraków, over PLN 30,000 in the Tri-City, and slightly less in Poznań (PLN 27,000 per sq.m.).

The price variation across the cities and the dominance of the Warsaw market in terms of prices and available options are also reflected in the current range of apartments available for sale. The vast majority of premises in this segment are offered at prices ranging from PLN 12,000 to 16,000 per sq.m., whereas in the case of apartments priced over PLN 18,000 per sq.m. (which approximately corresponds with the lower price threshold for high-end apartments) the share of apartments offered in cities other than Warsaw is very small.

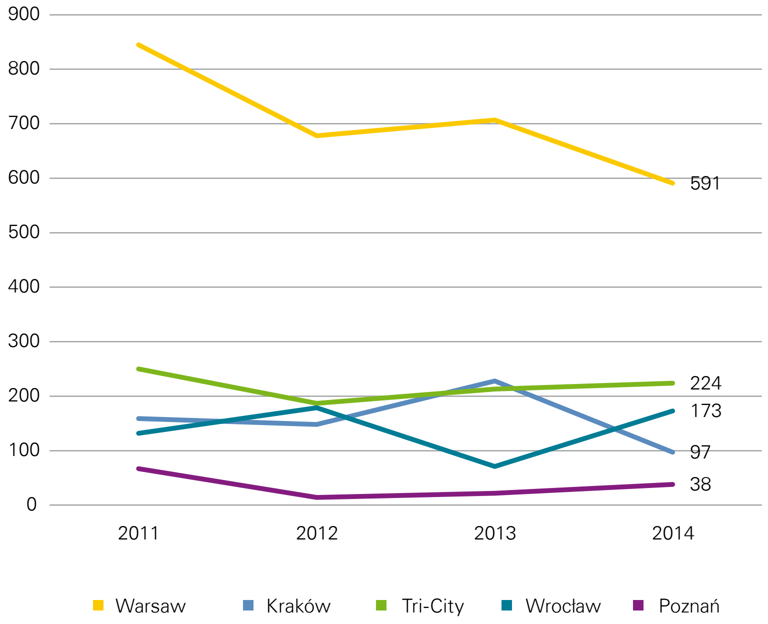
Considering the number of transactions, the average area and the estimated gross transaction prices (incl. VAT), the total value of the entire apartment segment can be estimated at the level of approx. PLN 600–800 million annually for Warsaw and at approx. PLN 500–600 million for the remaining four urban agglomerations taken together.

Today, the number of the most expensive high-end apartments (with unit prices exceeding PLN 17,000 per sq.m.) sold annually in those agglomerations can be estimated at 160–180 transactions, whereas the total value of the market in gross prices (incl. VAT) can be estimated at PLN 440–460 million per year. Of course, if we add the cost of finishing works, the sums spent by buyers of premises in the high-end subsegment will be much higher.

Distribution of premises in the apartment segment based on gross offering prices per square metre (in PLN) at the end of Q1 2015



Estimated value of the primary market in the apartment segment, in million PLN, based on preliminary binding agreements/developer agreements, in gross prices per square metre in agglomerations with the highest sales



Source: KPMG in Poland and REAS, monitoring conducted by REAS after Q1 of 2015

4.2 Types and locations of luxury apartments

Luxury apartments are offered in buildings of varied sizes and heights. Simplifying the picture, we can distinguish the following types of buildings in this segment:

City villas, usually fitting into the existing villa-style neighbourhoods, often with a historical value. Those are small buildings with a few to a dozen or so apartments. As a rule, such buildings have no additional shared features (reception area, swimming pool) but only a shared parking garage and a garden.

Buildings surrounded by existing buildings, usually in the city centre, with at least a dozen or so apartments.

Buildings with a few storeys, either stand-alone or in complexes of buildings, surrounded by greenery.

Individual residential towers or tall buildings (over ten storeys).

Location is a crucial criterion for properties to be classified as luxury apartments: a unique and prestigious place in the city, within the old town, near a large park, close to a theatre or an opera, or a beach at the seaside.

> *We are observing the growing wealth of our customers, who can increasingly afford to buy apartments or larger flats. At the same time, customers have increasingly high requirements and often expect the developer to provide customised solutions. Looking at these trends, we believe that the segment of luxury apartments will continue to expand in Poland. The market does not only demand but also enables the development of high-standard projects. The availability of state-of-the-art technologies, a broad range of materials and constantly evolving trends in architecture allow us to meet even the most sophisticated expectations.*
>
> *Customers interested in buying top-class apartments pay attention to extra facilities and exceptional characteristics of the investment, such as sophisticated architecture, elevations and common spaces finished with top-quality materials, a reception area, air conditioning as well as carefully designed green areas and gardens. Apartment buildings often incorporate innovative solutions such as systems for regulating temperature and light in individual apartments or video entry phones. Yet location remains the crucial factor which determines the choice of an investment: it is the location, combined with workmanship quality, that allows a property to be qualified as luxurious.*

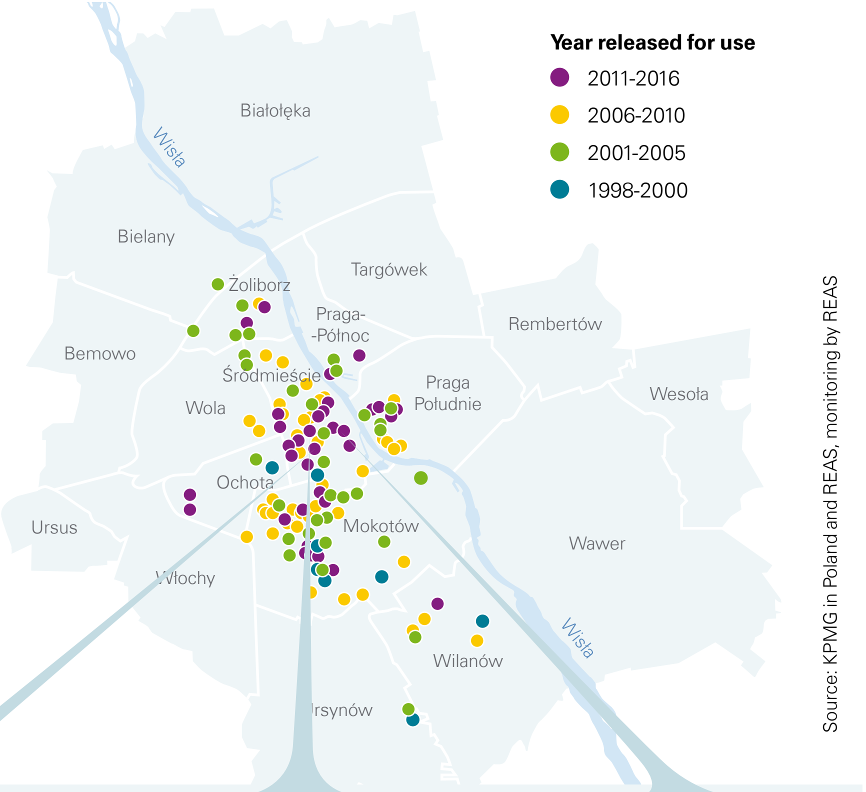
Jarosław Szanajca
President of the Management Board, Dom Development S.A.,
developer of luxury residences: Morskie Oko, Opera I, Opera II and Rezydencja Mokotów

Warsaw

The upper part of Mokotów (Górny Mokotów), especially near the Warsaw Escarpment*, is the district which plays the most important role as a location of new apartments in Warsaw. Another equally important area covers some parts of Śródmieście (the central district) near the Parliament and Łazienki park. Other areas with a significant number of investments include the old part of Żoliborz (Stary Żoliborz) and the older part of Saska Kępa. A few buildings were erected in the vicinity of the new Miasteczko Wilanów district, and in the area of the Warsaw Escarpment in Ursynów and Natolin, as well as in the old parts of Ochota. Individual small investments are also located in Bielany near Haller park.

Regarding investments currently under construction, there are, on average, approx. 30 premises per investment project still being offered for sale whereas in completed projects that still have apartments available the average number of premises for sale is 15.

Locations of luxury apartments in Warsaw



Source: KPMG in Poland and REAS, monitoring by REAS

Złota 44

Location: ul. Złota 44

Investor: Amstar Global Partners, BBI Development

Planned year of completion: Q4 of 2016

Architect: Daniel Libeskind

Number of floors: 52, with the apartment on the 52nd floor having 3 levels, reaching the 54th floor (apartments starting from the 9th floor)

Number of apartments: 287

Area of apartments: from 62 to approx. 1000 s.qm. (if a resident decides to occupy an entire floor)

Gross price per sq.m.: from PLN 24,000 to 40,000 with a parking space and storage space

Extra amenities (selected): relaxing zone (25-metre pool, gym, weight room, massage rooms, dry and wet sauna, terrace with deck chairs, outdoor Jacuzzi) two multimedia-equipped conference rooms, cinema room with a golfing simulator, specially arranged kids' club, concierge, wine cellar and luxury tasting room, HMS (Home Management System), round-the-clock reception area, security and monitoring service, restaurant, café, deli shop, on-site air-filtering station, bike parking spaces, electric car charging points

Additional info: The three top floors of the building comprise a penthouse with an area of 400 sq.m. (the so-called steel peak of Złota 44).

Cosmopolitan Twarda 2/4

Location: ul. Twarda 4

Investor: Tacit Development Polska JS

Year of completion: 2013

Architect: Helmut Jahn

Number of floors: 44 (apartments starting from the 8th floor)

Number of apartments: 236

Area of apartments: from 53 to 700 sq.m. (if a resident decides to occupy an entire floor)

Gross price per apartment: from PLN 1.4 to 6.9 million with finishing and furnishing

Extra amenities (selected): round-the-clock reception area, security and monitoring services, restaurants and deli shops on the ground floor, relaxing zone (a gym, sauna, Jacuzzi), club rooms, terrace lounge

Additional info: The elevation of the building is entirely glazed. Windows in each apartment can be fully opened or kept ajar. Unique solutions include openable windows in each room and bay windows protruding outside the core of the building, to offer a broader view to residents.

Rezydencja Foksal

Location: ul. Kopernika 5

Investor: BBI Development SA

Year of completion: 2012

Architect: JUVENES Projekt –Designers: Sławomir Stankiewicz, Michał Adamczyk, Krzysztof Tyszkiewicz;

Interior designer: Jacek Synkiewicz

Number of floors: 5 (apartments starting from the 2nd floor)

Number of apartments: 41

Area of apartments: from 40 to 291 sq.m.

Gross price per sq.m.: PLN 28,000 on average

Extra amenities (selected): round-the-clock reception area, security and monitoring services, relaxing zone (pool, Jacuzzi, dry and wet sauna, full-size squash court, gym room), wine cellars with a tasting room

Additional info: The apartment building is located centrally at the heart of Warsaw's Śródmieście district, close to the Royal Route. The architecture invokes pre-war traditions. Rezydencja Foksal is located at the former site of Skarpa cinema.

Source: KPMG in Poland and REAS, based on information provided by development companies

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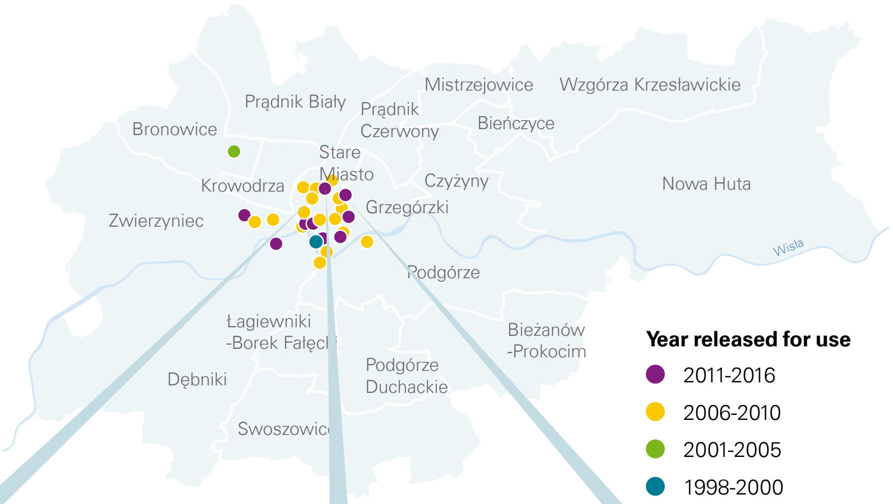
* Warsaw is situated in a relatively flat area. The significant element of the landscape is the western edge of the Vistula River, known as the Warsaw Escarpment. It is 20 to 25 m high in the Old Town and Central district. For centuries it was a popular location for residences of Polish kings and aristocrats.

Kraków

The locations of apartments in Kraków are mostly concentrated in the area of the Old Town and the Kazimierz district. Some investments can be found in Dębniki, in Zwierzyniec near the Old Town and in the Krowodrze area.

Regarding investments currently under construction, there are, on average, approx. 10 premises per investment project still being offered for sale whereas in completed projects that still have apartments available the average number of premises for sale is 9.

Locations of luxury apartments in Kraków



Source: KPMG in Poland and REAS, monitoring by REAS

Pałac Dunajewskiego

Location: ul. Dunajewskiego 4

Investor: Plomba s.c.

Year of completion: 2011

Architect: Antoni Łuszczkiewicz.

Extension and upward extension design: B. A. Ulatowscy

Number of floors: 3

Number of apartments: 13

Area of apartments: from 52 to 130 sq.m.

Gross price per sq.m.: from PLN 13,500 to 16,990

Extra amenities (selected): round-the-clock security services, shared SPA (pool, sauna, massage), conference room with a kitchenette, club room, wine cellar

Angel Wawel

Location: ul. Szlak 50

Investor: Angel Poland Group

Year of completion: 2015

Architect: Pracownia Gottesman-Szmelcman, Architecture SARL and ABP Biuro Projektowe

Number of floors: 5

Number of apartments: 223

Area of apartments: up to 700 sq.m.

Gross price per sq.m.: from PLN 12,000 to 30,000

Extra amenities (selected): round-the-clock reception area and security services, leisure space (wellness, pool, gym, saunas), lounge zone, cinema room, playroom for children, wine cellars, library

Additional info: The building houses the Royal Apartment, probably the most expensive penthouse in Poland (EUR 5 million)

Browar Lubicz

Location: ul. Lubicz 17

Investor: Balmoral Properties

Planned year of completion: Q2-3 of 2016

Architect: MOFO Architekci from Kraków

Number of floors: 3–5

Number of apartments: 301

Area of apartments: from 23 to 123 sq.m.

Gross price per sq.m.: from PLN 8,500 to 12,850

Extra amenities (selected): underground parking garage, commercial parking garage, grocer's shop in the mall, restaurant, mini-brewery, bank branch (PKO BP)

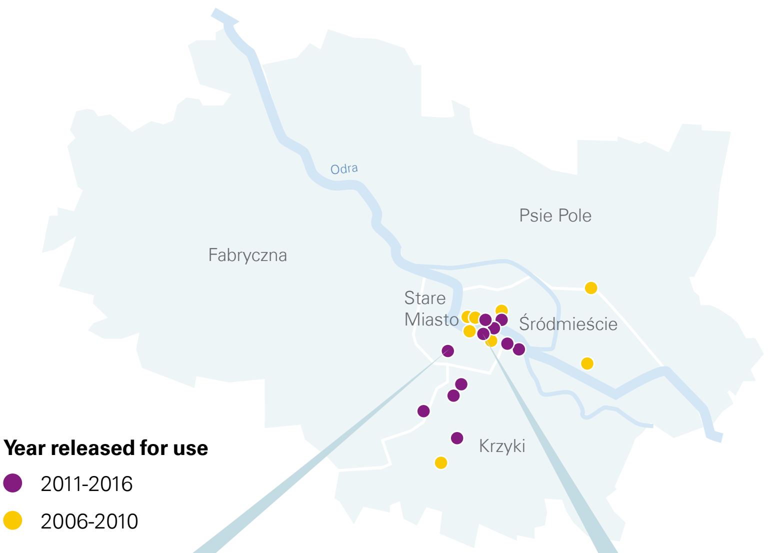
Source: KPMG in Poland and REAS, based on information provided by development companies

Wrocław

Much like in Kraków, luxury investments in Wrocław are also located within the Old Town or south of the Old Town area (northern district of Krzyki). Less often, such investments can also be found east of the Old Town and on the Great Island (Wielka Wyspa – Biskupin).

Regarding investments currently under construction, there are, on average, approx. 20 premises per investment project still being offered for sale whereas in completed projects that still have apartments available the average number of premises for sale is 12.

Locations of luxury apartments in Wrocław



Source: KPMG in Poland and REAS, monitoring by REAS

Sky Tower

Location: ul. Powstańców Śląskich 95

Investor: LC Corp SKY TOWER Sp. z o.o.

Year of completion: 2013

Architect: Studio Architektoniczne FOLD

Number of floors: 51

Number of apartments: 237

Area of apartments: from 50 to 227 sq.m.

Gross price per sq.m.: from PLN 16,000

Extra amenities (selected): concierge services, round-the-clock reception area, security and monitoring services, leisure space (jogging track, wellness centre, gym, sauna), housekeeping services, shopping mall at the foot of the building with services, boutiques and restaurants

Additional info: SKY TOWER apartments are located in a 212-meter-tall skyscraper, the tallest building not just in Wrocław, but in the entire country.

OVO Wrocław

Location: ul. Podwale 82-84

Investor: Wings Properties

Planned year of completion: Q2 2016

Architect: Pracownia Gottesman-Szmelcman Architecture SARL

Number of floors: 6

Number of apartments: 169

Area of apartments: from 30 to 250 sq.m. (+ a terrace of 200 sq.m.)

Gross price per sq.m.: from PLN 12,000 to 20,000

Extra amenities (selected): round-the-clock reception area, security and monitoring services, restaurants, cafes, leisure space (wellness centre, gym), conference centre at the Hilton hotel, office space.

Source: KPMG in Poland and REAS, based on information provided by development companies.

Tri-City

Luxury investments in the Tri-City are located in many different regions of this agglomeration: the Main City (Główne Miasto) and in its vicinity over the Motława river, at the sea beach near Jelitkowo, in the most attractive part of Sopot located close to the sea shore, and in Gdynia – the Orłowo district, near Wzgórze św. Maksymiliana and in the central part of the city.

Regarding investments currently under construction, there are, on average, approx. 8 premises per investment project still being offered for sale whereas in completed projects that still have apartments available the average number of premises for sale is 14.

Locations of luxury apartments in the Tri-City

Source: KPMG in Poland and REAS, monitoring by REAS

Sea Towers

Location: ul. Hryniewickiego 6, Gdynia

Investor: Invest Komfort

Year of completion: 2009

Architect: Pracownia Andrzeja Kapuścika

Number of floors: 36 and 28 (two connected towers)

Number of apartments: 274

Area of apartments: from 64 to 139 sq.m. (apartments still offered for sale)

Gross price per sq.m.: from PLN 7,800 to 15,300 (apartments still offered for sale)

Extra amenities (selected): round-the-clock reception area, security and monitoring services, club room, services at the ground floor of the building, video entry phones, playroom for children

Waterlane

Location: ul. Szafarnia 11, Gdańsk

Investor: AV Szafarnia Sp. z o.o.

Year of completion: 2012

Architect: KD Kozikowski Design and GAIA YZ ARCHITECTS LIMITED

Number of floors: 5

Number of apartments: 148

Area of apartments: from 38 to 174 sq.m.

Gross price per sq.m.: from PLN 12,000 to 17,700

Extra amenities (selected): round-the-clock reception area with security, leisure area only for residents (pool, Jacuzzi, saunas and gym)

Symfonia Residence

Location: ul. Targ Rybny 11, Gdańsk

Investor: Immo-Lux

Year of completion: 2009

Architect: Kuryłowicz & Associates

Number of floors: 5

Number of apartments: 14

Area of apartments: from 60 to 130 sq.m.

Gross price per sq.m.: from PLN 15,000 to 25,000

Extra amenities (selected): all apartments have a lounge overlooking the Motława river (a wall of windows), monitoring service

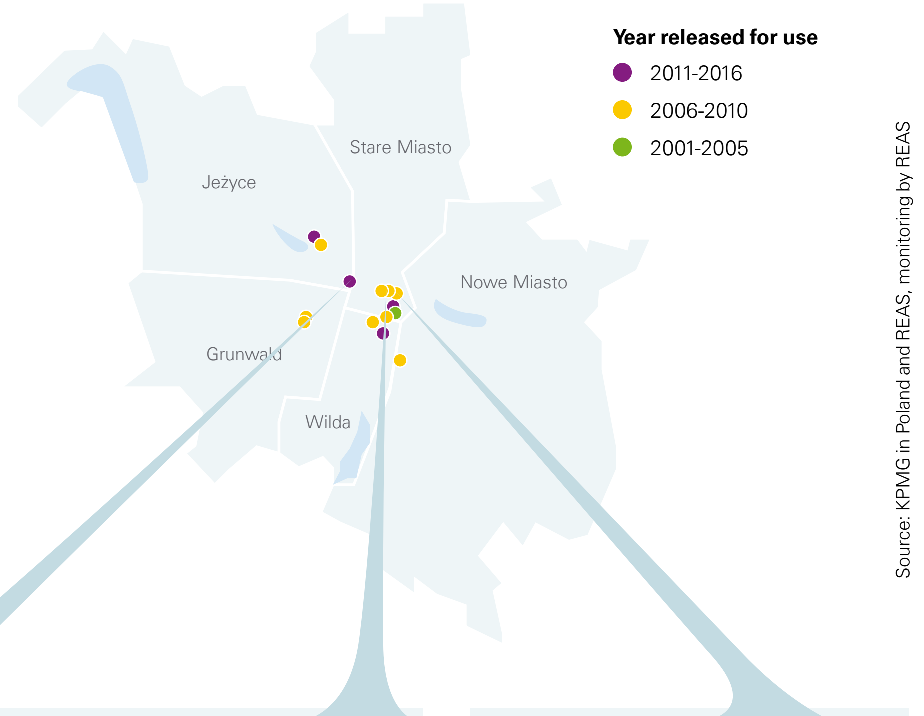
Source: KPMG in Poland and REAS, based on information provided by development companies.

Poznań

Much like in other cities except Warsaw, luxury investments in Poznań are located near the Old Town, especially near the bank of the Warta river. Occasional investments can also be found in the areas of Jeżyce and Grunwald.

Regarding investments currently under construction, there are, on average, approx. 36 premises per investment project still being offered for sale whereas in completed projects that still have apartments available the average number of premises for sale is 24.

Locations of luxury apartments in Poznań



Source: KPMG in Poland and REAS, monitoring by REAS

Ville Sołackie

Location: on the hill between Podlaska and Góralska streets

Investor: Agrobex

Planned year of completion: 2015/2016

Architect: Sławomir Rosolski

Number of floors: 2

Number of apartments: 21

Area of apartments: from 65 to 245 sq.m.

Gross price per sq.m.: from PLN 12,450

Extra amenities (selected): floor heating, air conditioning, central vacuuming and video entry phone in each apartment

Additional info: The investment is located in Sołacz, an exclusive villa district in Poznań. The estate comprises 7 villas, all designed in a style combining Art Deco with German villa architecture and early modernism.

Apartamenty Staromiejskie

Location: ul. Dominikańska 6

Investor: NG Invest sp. z o.o. S.K.A.

Year of completion: 2009

Architect: Pracownia GANDALF Przemysław Matysiak

Number of floors: 3

Number of apartments: 7

Area of apartments: from 29 to 130 sq.m.

Gross price per sq.m.: currently one apartment is offered for sale (106 sq.m.), at the price of PLN 8,400 per sq.m.

Extra amenities (selected): passenger lift, underground parking garage with a car lift, monitoring service, option to install a fireplace in each apartment, air-conditioning in each apartment, video entry phone, external blinds

Nowa Sienna

Location: ul. Tylne Chwaliszewo 23-25

Investor: 'Nowa Sienna' Sp. z o.o.

Year of completion:

Stage 1: 2010, Stage 2: 2014

Architect: Studio Lisiak

Number of floors: 4

Number of apartments: 60

Area of apartments: from 42 to 300 sq.m.

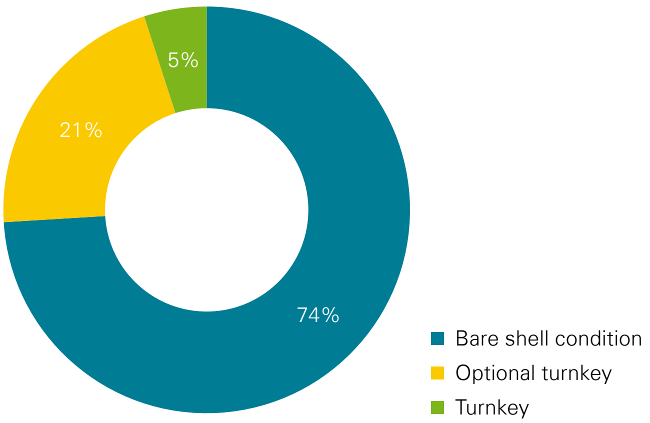
Gross price per sq.m.: from PLN 7,400 to 15,600

Extra amenities (selected): high-quality finishing materials, building technology which guarantees excellent sound-proofing of interiors, enhanced thermal insulation, green terraces (gardens) from the side overlooking the river bank

Additional info: The largest premises, with large mezzanine levels in the upper part, are located on the top floor, where the height of the interiors sometimes reaches more than 6 metres.

Source: KPMG in Poland and REAS, based on information provided by development companies.

Offered finishing methods for investments in the apartment segment



Average number of premises and heights of premises in investments in the apartment segment in the analysed urban agglomerations

Urban agglomeration	Average no. of apartments	Minimum height of premises	Maximum height of premises (m)
Warsaw	55	2.70	4.40
Kraków	46	2.65	3.70
Wrocław	70	2.60	3.80
Tri-City	46	2.60	3.75
Poznań	58	2.60	5.20

Source: KPMG in Poland and REAS, monitoring conducted by REAS after Q1 of 2015, Investments released for use in 2009 or later, or planned for release by the end of 2016.

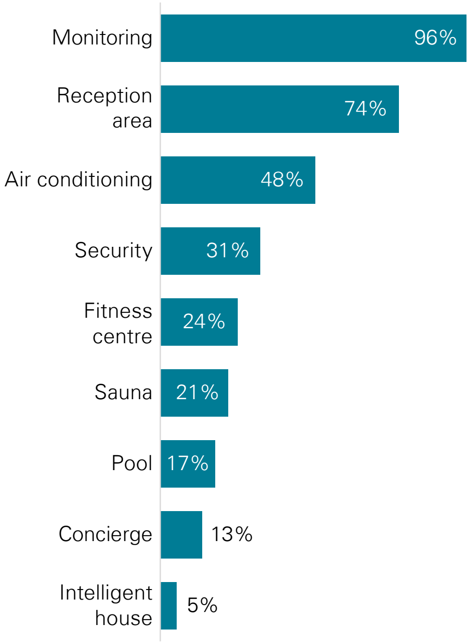
4.3 Characteristics of luxury apartments

The vast majority of premises, i.e. almost three quarters, are offered exclusively as bare shells, where the buyers need to carry out their own finishing works. In quite many cases such premises are offered even without partition walls so that buyers, in collaboration with their architects, can decide on the arrangement of interiors in accordance with their preferences. Around 5% of investments offer finished apartments only, primarily in residential towers where it is difficult to undertake one's own construction works. In the case of one-fifth of the investments, developers offer an additional interior finishing service, usually as a choice among a few variants, with varying styles and materials used.

After more than 10 years of development of this market segment it is possible to identify several key characteristics of luxury apartment buildings:

- A prestigious location,
- Unique architecture, regardless of the aesthetic convention followed, almost always with large exterior glass panes and an impressive finial of the building,
- High-quality finishing materials on the exterior (stone, stainless steel, glass) and inside the building (stone, exotic wood, brass), plus works of art: paintings or sculptures,
- Window and door frames made of exotic wood or aluminium,
- An impressive entrance hall (a foyer, a lobby) with a reception area, a gym, as well as a pool in larger buildings,
- A carefully designed garden,
- Air-conditioning as a standard or an optional element,

Most commonly found amenities in investments from the apartment segment



Source: KPMG in Poland and REAS, monitoring conducted by REAS after Q1 of 2015, investments released for use in 2009 or later, or planned for release by the end of 2016.

- Clearly higher-than-standard height of interiors, usually about three metres, plus larger-than-usual living area in apartment categories (one-, two-, three-bedroom apartments etc.),
- Apartments on top floors (or on the few highest floors in tower buildings) designed as penthouses, with large terraces, oversized rooms, sometimes designed as two-storey apartments.

In comparison with other market segments, the size of the average investment is relatively small, housing approx. 50–70 units. This results from the relatively high share of fairly small buildings on the market.

Apart from the smallest buildings, which comprise a few, or just over a dozen apartments, the standard solution is to have a reception area located in a spacious entrance hall, and staffed by porters on a 24/7 basis. In some investments receptionists also provide concierge services such as limousine rental, shopping, pet minding or ticket booking (travel, theatre or opera). In tall buildings air-conditioning is fitted as a standard element whereas in lower buildings it is usually optional. No building in Poland has private lifts serving only one penthouse, however in some buildings the entrance hall to some apartments can be accessed directly from the lift.

A fitness centre is a standard facility in larger buildings, usually located on the ground floor or at the underground level. It comprises a gym and a sauna with Jacuzzi. Taller buildings or those with a super premium standard also have a swimming pool. In recent years, the 'intelligent house' feature has become very widespread: residents can control heating, air-conditioning, lighting, household appliances, curtains or blinds not only from inside the house but also from the outside, via the Internet.

Undoubtedly, the appeal of a building's architecture plays an important role for buyers. As with other luxury goods, brands (i.e. architectural designs) begin to play an increasingly important role also in this sphere. However, Polish buyers seem to be fairly conservative and mainly follow common sense.

Projects constructed in accordance with famous architects' ideas include Złota 44, designed by Daniel Libeskind, and Cosmopolitan, designed by Helmut Jahn. Lilium Tower is another residential tower which was planned to be developed by a star of worldwide architecture: its design was commenced by Zaha Hadid. Multico Residence was designed by an architect from California Giorgio Dazzan, born and educated in Venice. Designs of other buildings were, however, developed mostly by Polish architects, the best-known ones (such as Stefan Kuryłowicz or JEMS Architekci) as well as their somewhat lesser known colleagues.

"The demand for luxury goods has been growing year after year"– this is a typical beginning of nearly all major reports concerning this market. The claim cannot be dismissed since society is getting richer year after year and what once was unachievable is becoming increasingly common. The very definition of 'luxury goods' is very fluid: what is 'luxury' for some people is something ordinary for others. Interestingly, what is perceived as 'ordinary' is not always linked with having deep pockets. Instead, it often results from a number of other factors such as tradition, culture, or even climate or place of residence. As technology progresses, luxury goods turn into mass-market goods while those which were previously commonly available are pushed out by the new mass goods and turn into luxury.

A more affluent society is also a society that is more aware and able to make decisions in a thought-out manner. Any purchase and any investment involves an in-depth analysis. Buying an apartment or flat always entails certain risks, which is why we should analyse a few very important factors. And these will not always be the ones which are usually regarded as the most important ones when choosing a place of residence, i.e. the surface and standard (both of which depend solely on the buyers' needs and preferences in fact). The key factors will certainly include location, the neighbourhood and development prospects.

Location. Unlike the standard of finishing elements, location is constant because–trivial as it may sound–an apartment cannot be relocated. This factor being invariable, a luxury apartment should be situated in the strict centre and be well linked with the rest of the city.

Neighbourhood. When talking about a luxury apartment, we are also talking about the availability of services in its surroundings, proximity of green areas, access to a river, or possibility to rent a place for a sailing boat.

Development prospects. This is virtually the most important factor contributing to the profitability of an investment. If the area where an apartment is situated is developing, the value of the luxury apartment will increase.

Therefore, if all those conditions are met, people will increasingly invest in luxury flats and apartments.

Krzysztof Pykel
Managing Director for Investments, Port Praski

5

Buyers of luxury properties in Poland

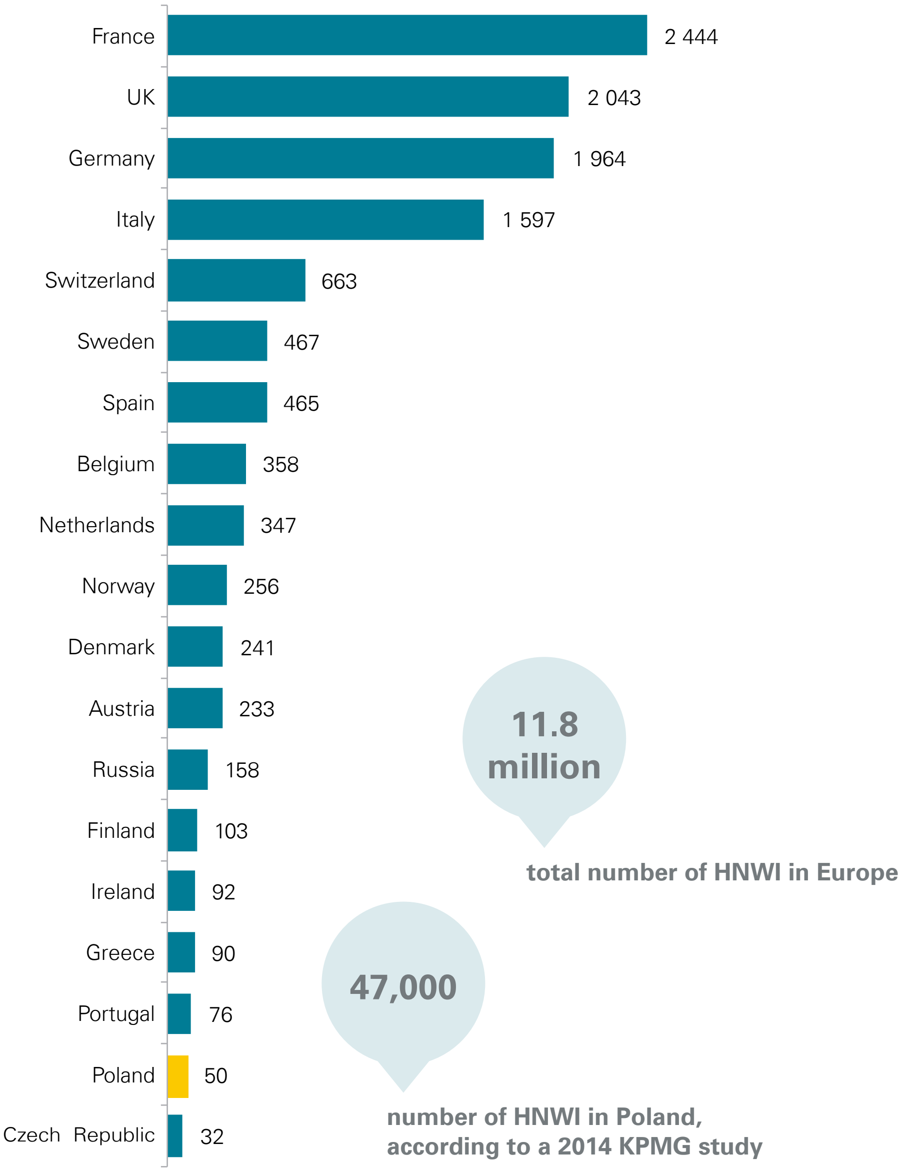
The market of luxury properties in Poland is still at a fairly early stage of development. Among other factors, this results from the fact that Poland lags far behind most Western European countries in terms of assets held per capita and income levels. The market of luxury properties and the entire luxury goods market in Poland should be viewed from a different perspective than mature markets in highly developed economies. The study conducted by KPMG shows that the average price at which affluent Poles start to consider an apartment to be luxurious is approx. PLN 16,500 per square metre.

5.1 Individual wealth in Poland in comparison with the rest of Europe

In comparison with Western European countries, assets held by Poles should still be considered relatively small. The average value of assets owned by a resident of the European Union in 2014 was USD 153.6 thousand, which was nearly seven times as much as in Poland (USD 22.2 thousand). According to KPMG estimates, Poland needs up to 43 years to catch up with the EU average if the current rate of wealth growth persists. In terms of average assets per capita, Poland's situation is comparable to that of Slovakia (USD 22.6 thousand), Hungary (USD 24.7 thousand) and Croatia (USD 21.7 thousand). In this classification Poland outperforms only some post-Communist countries in Central and Eastern Europe, such as Lithuania, Latvia, Bulgaria, Romania, Ukraine or Belarus.

Undoubtedly, Poland is a country where the middle and upper classes are only just emerging. For this reason, the market of luxury property in Poland should be viewed from a different perspective than mature markets in highly developed economies. It is necessary to modify the criteria of assessment and apply those which are different from the criteria used to analyse the luxury market in Western Europe.

Number of HNWI in selected European countries (in thousand, 2014)



Source: KPMG in Poland and REAS, based on Credit Suisse data

The key group of buyers of luxury goods (incl. luxury properties) comprises people described as *high net worth individuals* (HNWI). Those people hold liquid assets (e.g. cash, shares or properties where they do not live) worth at least USD 1 million. According to KPMG estimates, there were approx. 47,000 HNWI in Poland in 2014. According to Credit Suisse, the number of HNWI in Poland in H2 of 2014 exceeded 50,000. This figure is still relatively low in comparison with the rest of Europe and comparable to the number of HNWI in countries with a much smaller population, such as Portugal (76 thousand HNWI) or the Czech Republic (32 thousand HNWI).

Nearly 90% of the Polish HNWI own USD 1 to 5 million worth of assets. Fortunes estimated at over USD 50 million are held by merely 0.5% of HNWI in Poland. The most commonly mentioned sources of wealth include a good job and career (58%). Also, investments play an important role in multiplying wealth (22%). This is an important fact when we analyse the premium segment of the property market: buyers of such properties opt for this kind of purchases not only in order to live there, but they also view luxury apartments or residences as part of their investment portfolio, alongside shares or bonds.

HNWI – High Net Worth Individuals

Definition: People who hold liquid assets worth at least USD 1 million; their assets take various formats, e.g. cash, shares or real property that is not used for owners' residential purposes.

HNWI population worldwide: 35 million

HNWI population in Europe: 11.8 million

HNWI population in Poland: 47 thousand

Largest HNWI markets: North America, Europe, Asia-Pacific

Who are the Polish HNWI?

The most affluent inhabitants of Poland are predominantly aged 40–59 and usually live in cities with a population exceeding 250,000. More than a half of Polish HNWI are private entrepreneurs and one in five represent top managerial levels (CEOs, board members, directors).

Age

37%	27%	21%	11%	4%
40–49 y.o.	50-59 y.o.	30-39 y.o.	Over 60 y.o.	Up to 29 y.o.

Place of residence

53%	20%	16%	9%	2%
Urban, above 250K residents	Urban, 20–100K residents	Urban, 100–250K residents	Urban, under 20K residents	Rural

Occupation

57%	20%	10%	10%	3%
Private entrepreneurs	Top managers	Liberal professions	Mid-level managers	White collars/specialists

Source: KPMG in Poland and REAS, based on Credit Suisse data and the KPMG survey of affluent and rich Poles

> *We can venture to say that the luxury property market was in fact non-existent in Poland until recently, although the socio-economic environment and the growing awareness of buyers give an advantage to Warsaw as a preferred destination for investments in the super premium segment. Warsaw has made a huge civilizational and infrastructural leap forward. Also in terms of lifestyle it is becoming similar to leading European metropolises. Being a window to the world for the Central European region, including Polish regional capitals, Warsaw is an exceedingly attractive place to live and work, and it provides the optimum demand for luxury goods. Super premium property, as part of the luxury goods segment, is characterised by two features which are essential for well-off customers. On the one hand, such a property reflects the owners' lifestyle and fulfils their aspirations. On the other hand, it is an optimum way to deposit capital and an excellent investment product. Buyers of luxury property increasingly pay attention not only to a prestigious central location, exceptional architectural design and unique interiors, but also to the presence of facilities which are unavailable in standard residential buildings, such as ample recreational spaces or concierge services. ZŁOTA 44 in Warsaw is a response to this trend. When the project is finalised in 2016, this 192-metre avant-garde skyscraper, designed by the world-famous architect of Polish origin, Daniel Libeskind, will set the trends on the Polish market of super premium property. Certainly, this address will be comparable with the most prestigious locations in Europe and around the globe.*

Rafał Szczepański
Vice-President of BBI Development SA,
partner of the consortium which bought the Złota 44 project in Warsaw

5.2 Luxury real estate in the eyes of affluent and rich Poles

Our analysis of attitudes towards luxury properties displayed by affluent and rich Poles is based on a study conducted in September and October 2014. The survey's results were originally published in the KPMG report 'Luxury Market in Poland. Edition 2014.' The study covered 608 individuals with a monthly gross income of at least PLN 7,127. The respondents were subdivided into three groups. Nearly half of them earned from PLN 7,127 to 10,000, and they were classified as 'affluent' for the purpose of the study. One quarter of the respondents earned from PLN 10,001 to 20,000 and were described as 'very affluent'. The remaining individuals earned over PLN 20,000 (incl. 6% of those earning over PLN 50,000) and were labelled 'rich'.

The following, deepened analysis concerning luxury real estate does not cover answers given by individuals from the first group, i.e. earning PLN 7,127 to 10,000 a month. Most of them can afford the occasional or even regular purchase of some luxury goods (defined in accordance with Polish rather than Western European standards). However, luxury properties remain beyond their reach in most cases.

Definition of luxury

The research results have shown that Poles earning PLN 10,000–20,000 believe that the minimum price of a luxury apartment is nearly PLN 16,000 per square metre, whereas the respondents with the highest earnings (over PLN 20,000) think one square metre of a luxury property starts at PLN 17,000. The corresponding amounts are usually even higher (on average, nearly PLN 20,000 per 1 sq.m.) in the eyes of the key buyers of luxury goods and services i.e. those described as *high net worth individuals* (HNWI).

Male and female survey respondents vary in their perception of luxury property. The surveyed men think that the minimum price per square metre of a luxury apartment slightly exceeds PLN 17,000 whereas women were likely to set the threshold at PLN 14,600. However, it should be stressed that the average level of wealth among the surveyed women was lower than that of men. Income and assets owned should be considered the decisive factor in the perception of luxury.

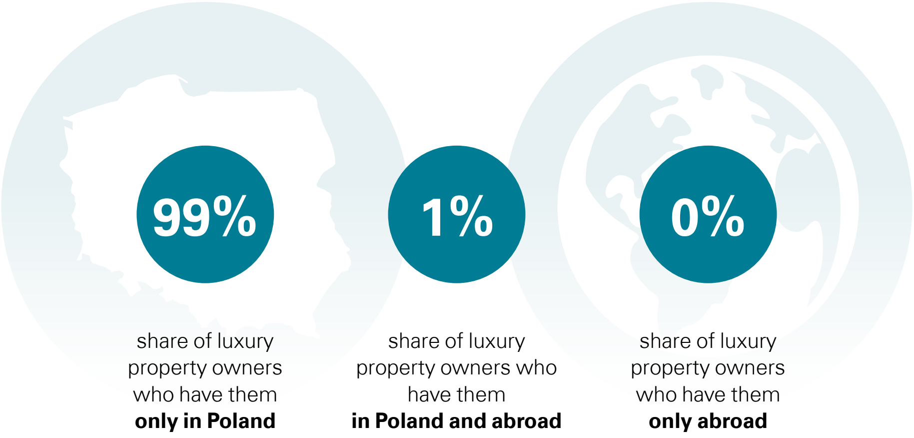
The same should be kept in mind when analysing answers by respondents' age groups. In age groups under 50 the lower threshold of a luxury apartment fell between PLN 15,000 and 16,000 per sq.m. Meanwhile, older respondents claimed that a luxury apartment is one which costs more than PLN 20,000 per sq.m. The level of wealth was crucial in this case: the older the age group, the higher the percentage of people who managed to accumulate considerable assets during their lifetime or who achieved high income.

Buyers of luxury properties

Who buys luxury properties in Poland? Not surprisingly, the largest share of buyers of luxury properties in the survey (61%) belonged to the 'rich' group (i.e. with a monthly gross income over PLN 20,000). Moreover, as many as 84% of HNWI put their money into the luxury property segment. More than half of the respondents from this group make a purchase once in three years or more frequently, which proves that the role of this segment as an investment has grown rapidly. Among the very affluent respondents who believe that the threshold price of luxury property is about PLN 16,000 per sq.m., nearly half decided to make such an investment.

Looking at job positions held, one group of buyers of luxury properties includes top managerial staff, such as managers from multinational corporations. Another group of buyers comprises private entrepreneurs and self-employed individuals. A further group consists of liberal professionals, such as attorneys or notaries. At least half of the respondents with higher-than-average income who occupy the aforementioned positions declared owning a luxury property. A smaller share of buyers was observed in the group of lower and mid-tier white-collar workers (25%).

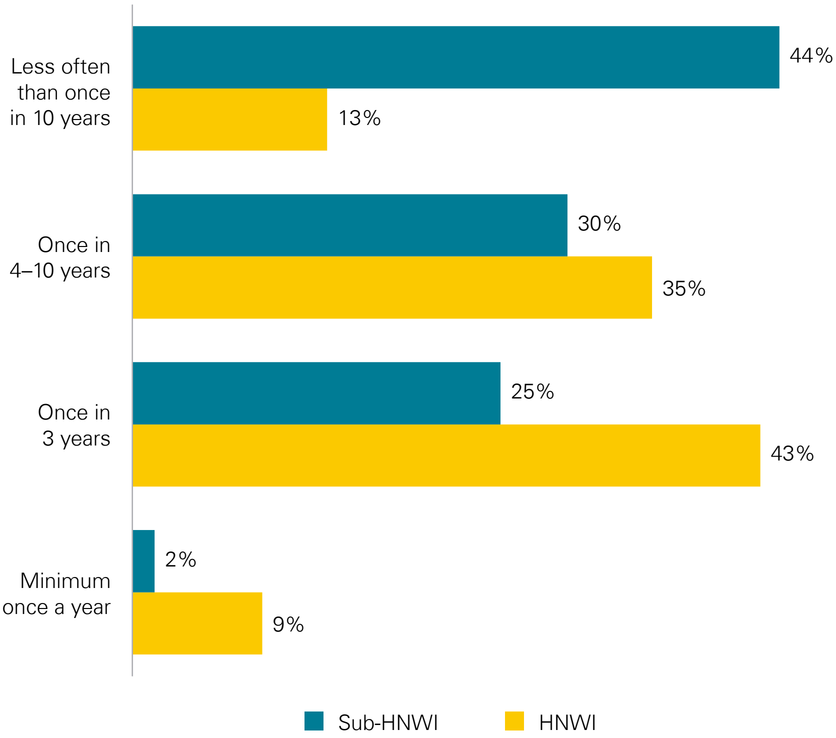
Respondents owning luxury properties in Poland and abroad



Source: REAS and KPMG in Poland, KPMG survey among affluent and rich Poles

Share of respondents who are non-owners of luxury properties but plan to buy one within one year (by gross monthly income)

Frequency of buying luxury properties among the respondents (by assets held)



Source: KPMG in Poland and REAS, KPMG survey among affluent and rich Poles

The survey's results suggest that Poles decide to buy luxury real estate nearly exclusively in Poland. Only 1% of the respondents said they owned such property abroad. This fact is not surprising given that Poland is currently ranked at the 23rd position among all EU member states in terms of assets held per capita. People who are considered affluent or rich in Poland would often be classified into the middle class in Western countries in terms of their income and assets. They can afford to buy luxury property on the Polish market, where prices are relatively low. However, luxury properties in Western countries are available only for a small group of the richest Poles.

The keys to a luxury apartment or a residence often end up in the hands of people aged 40 or older. Naturally, people from this age category prevail among HNWI, i.e. the richest Poles. Owners of fortunes accumulated throughout their lives decide to buy exclusive properties to surround themselves with comfort, emphasise prestige and social position, and also to multiply their assets in an effective way. Young clients are least represented among buyers: one third of high earners decide to buy a premium property before their 30th birthday. This is connected, among others, with the relatively small share of this age group among the most affluent Poles.

💵 **Threshold price per square metre for a finished apartment in a large Polish city to be considered luxurious**

👥 **Share of respondents who say they own a luxury property**

Gross monthly income	PLN 10,000–20,000	PLN 20,000+
💵	PLN 15,922	PLN 17,033
👥	47%	61%

HNWI Status	HNWI	Sub-HWNI
💵	PLN 19,755	PLN 15,115
👥	84%	49%

Age	Up to 29 y.o.	30-39 y.o.	40-49 y.o.	50-59 y.o.	60+ y.o.
💵	PLN 16,000	PLN 15,720	PLN 14,904	PLN 20,222	PLN 21,294
👥	33%	43%	55%	67%	76%

Occupation	Top managers	Private entrepreneurs/ self-employed	White collars/specialists	Liberal professionals
💵	PLN 17,561	PLN 16,933	PLN 16,024	PLN 16,822
👥	53%	65%	25%	50%

Source: KPMG in Poland and REAS, KPMG survey among affluent and rich Poles

In our survey we decided to explore the lifestyle of the most affluent Poles more closely. It turns out that around half of the respondents earning over PLN 20,000 a month regularly visit exclusive restaurants and use a housekeeper or a cleaner. Concierge services are still relatively new: for the time being less than a quarter of rich Poles decide to solicit this kind of support. About a third use the services of a sports trainer regularly or occasionally.

When analysing the lifestyle of very affluent and rich Poles, we can see that developers of luxury properties address their expectations. State-of-the-art apartment buildings include both concierge and housekeeping services which can be easily used by owners of exclusive properties. Common amenities include a shared leisure section with a gym, a squash court or an aerobics room, sometimes also a pool. The commercial section sometimes includes deli shops and elegant restaurants.

	Very affluent PLN 10,000–20,000	Rich PLN 20,000+
Visiting exclusive restaurants		
Regularly	29%	47%
Occasionally	67%	49%
Using a private sports trainer		
Regularly	20%	27%
Occasionally	25%	30%
Using a housekeeper/cleaner		
Regularly	30%	53%
Occasionally	26%	25%
Using concierge services		
Regularly	2%	6%
Occasionally	21%	17%

Source: KPMG in Poland and REAS, KPMG survey among affluent and rich Poles

6

Development prospects for the luxury property market in Poland

Despite almost 20 years of development, the Polish market of luxury residential properties still has a fairly modest scale. Prices levels, both in regard to entire premises and prices per square metre, are a far cry from record transactions observed in Monaco, London or New York, but also from the prices in Moscow and many Western European capitals.

However, it is important to remember that the major global centres built their status in the course of dozens of years (perhaps except Dubai) and the current property prices in those locations were also shaped by recent purchases made by groups of buyers who are completely inactive on the Polish market: affluent Russians, Chinese, buyers from the Arab world, India, the Far East or Africa.

Only a handful of Polish apartments correspond with the highest global standards of luxury in terms of finish as well as floor size. It is rare in Poland to have separated rooms for servants, whereas such premises often occupy large areas in luxury properties of Mumbai, Singapore or even London.

Likewise, representative spaces in Poland rarely allow owners to organise a party for more than a hundred people whereas parties for a few hundred people are fairly common in the largest apartments of New York or Los Angeles.

Not surprisingly, record-level transactions recently exceeded the mark of USD 200 million for a penthouse in London, USD 70 million for an apartment in New York, and USD 65 million for a terraced house in Paris. The most expensive recently sold penthouse in Hong Kong reached a price of USD 105 million. In the case of Monaco, record-level prices go beyond EUR 80,000 per sq.m., while the average prices stand at around a dozen or so thousand euro per square metre. The aforementioned prices apply to fully fitted and even furnished residential premises.

On the other hand, the current scale of the Polish market and the price levels seem to justify moderate optimism. In a few years' time, the number of apartments with unit prices above

PLN 17,000 per sq.m. sold annually in the five largest agglomerations should exceed 250 whereas the total market value in gross prices should cross the mark of PLN 500 million. The market will gradually expand as Polish financial elites increase their wealth, and as the most affluent Poles gradually abandon the idea to build individual suburban residences in favour of living in the city.

Apart from Polish residents, important target groups will include affluent members of the Polish diaspora, especially from Western Europe and North America, as well as business people who do their business in Poland. However, it is important to bear in mind that each new building released for use will gradually enhance competition for the primary market from apartments offered on the secondary market.

On the other hand, we are less likely to see fast-paced growth in the segment of residences built as estates by development companies. However, the success of such an endeavour in the vicinity of an exclusive golf course in the Warsaw agglomeration seems realistic.

When thinking of the long-term future of the Polish market of luxury residential properties, we should start by asking about the features which turn a city into a desirable location and a residential real estate hub for the most affluent buyers. The authors of the aforementioned Sotheby's report list the following factors:

- Concentrated business environment – often related to the finance industry
- Proximity to some of the world's largest markets
- English proficiency
- Stable real estate markets
- Strong and consistent historical economic performance
- Strong and stable institutional frameworks
- High living standards, taking into account such factors as weather, health, leisure activities, and transport

Moreover, some experts point to the importance of the proximity of world-class universities, where children can receive a top-level education. A look at this list explains why none of the Polish cities stand a chance of becoming a destination for luxury properties for the global financial elite. However, this list also indicates that Polish urban centres have many ways to enhance their image and, thus, to boost demand for new luxury properties among foreign buyers. Efforts to attract such buyers should be incorporated into multi-level development strategies for the largest metropolises in Poland and only such actions could radically accelerate the development of the luxury property market in Poland.

> *In a few years' time, the number of apartments with unit prices above PLN 17,000 per sq.m. sold annually in the five largest agglomerations should exceed 250 whereas the total market value in gross prices should cross the mark of PLN 500 million. The market will gradually expand as Polish financial elites increase their wealth, and as the most affluent Poles gradually abandon the idea to build individual suburban residences in favour of living in the city.*

7

Timeline – Key events

2014	**Piano House** | Warsaw Icon Real Estate	
2013	**Sky Tower** | Wrocław The first finished apartment	**Cosmopolitan** and **Złota 44** open show apartments
2011	**Rezydencja Foksal** | Warsaw BBI Development	
2009	**Sea Towers** | Gdynia Invest Komfort	
2006	**Marina Mokotów** | Warsaw, Fort Mokotów Ensemble of luxury apartment buildings as part of a large estate with flats of varied standards	
2004	**Morskie Oko, Rezydencja Opera** | Warsaw two investments by Dom Development	
2002	**Multico Residence** | Warsaw Wartico	**Allegretto** | Warsaw 1st stage of a multi-stage Eko-Park project
2001	**Wstęga Warty** | Poznań Echo Investment	
1998	**Dom pod Żaglami** | Kraków	**Melody House** | Warsaw Echo Investment

Notes

Authors: Steven Baxted, Oktawia Rodak, Mariusz Strojny, Filip Żuchowski (KPMG)
Kazimierz Kirejczyk, Katarzyna Kuniewicz, Paweł Sztejter (REAS)

KPMG offices in Poland

Warsaw
ul. Inflancka 4A
00-189 Warsaw
T: +48 22 528 11 00
F: +48 22 528 10 09
E: kpmg@kpmg.pl

Kraków
al. Armii Krajowej 18
30-150 Kraków
T: +48 12 424 94 00
F: +48 12 424 94 01
E: krakow@kpmg.pl

Poznań
ul. Roosevelta 18
60-829 Poznań
T: +48 61 845 46 00
F: +48 61 845 46 01
E: poznan@kpmg.pl

Wrocław
ul. Bema 2
50-265 Wrocław
T: +48 71 370 49 00
F: +48 71 370 49 01
E: wroclaw@kpmg.pl

Gdańsk
al. Zwycięstwa 13a
80-219 Gdańsk
T: +48 58 772 95 00
F: +48 58 772 95 01
E: gdansk@kpmg.pl

Katowice
ul. Francuska 34
40-028 Katowice
T: +48 32 778 88 00
F: +48 32 778 88 10
E: katowice@kpmg.pl

Łódź
al. Piłsudskiego 22
90-051 Łódź
T: +48 42 232 77 00
F: +48 42 232 77 01
E: lodz@kpmg.pl

kpmg.pl

Contacts

KPMG Sp. z o.o.
ul. Inflancka 4A
00-189 Warsaw, Poland
T: +48 22 528 11 00
F: +48 22 528 10 09
E: kpmg@kpmg.pl

Steven Baxted
Audit
Partner, Head of the Building,
Construction & Real Estate Group
E: sbaxted@kpmg.pl

Mariusz Strojny
Knowledge Management & Market Research
Senior Manager
E: mstrojny@kpmg.pl

Magdalena Maruszczak
Marketing & Communications
Director
E: mmaruszczak@kpmg.pl

kpmg.pl

REAS
ul. Belwederska 9 lok. 103
00-761 Warsaw, Poland
T: +48 22 380 21 00
F: +48 22 380 21 01
E: reas@reas.pl

Kazimierz Kirejczyk, FRICS
Managing Partner, President of the Management Board
T: +48 22 3802 100
E: kazimierz.kirejczyk@reas.pl

Paweł Sztejter
Managing Partner
Developer Advisory & Valuation
T: +48 22 3802 105
E: pawel.sztejter@reas.pl

Katarzyna Kuniewicz
Partner
Market Research & Analysis
T: +48 22 3802 125
E: katarzyna.kuniewicz@reas.pl

reas.pl