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THE PROSPECTS FOR NEW INVESTMENT VEHICLES BASED ON REAL ESTATE IN POLAND: A REVIEW OF THE MARKET AND DEMAND FROM POTENTIAL INVESTORS.

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Over the last twenty years both real estate and capital markets in Poland have been transformed. The mechanisms for saving and investment have evolved, both in terms of the quality and quantity of options available, and these are of great interest to many Poles. This paper places the current market in context and identifies the investment alternatives related to these markets, particularly from the perspective of an individual potential investor. Until recently, the mechanism by which individuals have been able to invest in real estate has been limited to the purchase of specific assets such as land, houses or apartments. Secondary research was used to place the current Polish real estate market in context, investigate the potential performance of different sectors of property as investments and the forms a new investment vehicle could take, for example funds, trusts or other financial instruments backed by broader property assets. The appetite for such a financial product was then explored by the first author who carried out a survey to investigate the attitudes of a sample of fifty people selected from differing professional and social backgrounds.

Keywords: Real Estate, Investment, Poland, Market, Attitude survey.

INTRODUCTION AND HISTORICAL BACKGROUND

In the years from 1989 to 1993, Poland and other Central and Eastern European (CEE) countries experienced a series of interlinked economic problems including falling production levels, rising unemployment and rising inflation. Poland led the regional transformation process from a centrally controlled to market-led economy. This transformation was achieved through what could be described as 'shock therapy', including experiencing a severe drop in production (-11.6% in real GDP in '89 and -7.6% in '90) plus hyperinflation, peaking at 586% in 1990. The government adopted a series of policies, including the privatization of previously state-controlled enterprises, designed to adjust the Polish economy from a centrally controlled model to a market-led mixed economy quickly, but painfully.

Other countries, notably the Czech Republic and Slovakia (previously Czechoslovakia) and Hungary, decided to carry out these economic reforms over a longer time period with less social and economic pain. The Polish 'shock therapy', despite the upheaval and problems associated with the swift move to a more liberal economic model, was broadly successful in economic terms, so that by 1993 Poland was experiencing over 4% GDP growth, whilst other CEE countries' economies were still shrinking.

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Inflation, however, remained a problem for all of the countries in the region for almost a decade. Detailed data on the first four years of transformation process in CEE region is presented in Figure 1.

As part of the transformation process following the collapse of the Soviet Union, many CEE countries aspired to European Union membership. From1989 onwards, income per capita was far lower in CEE countries than the EU and even the richest countries from the former Soviet block had wealth levels of only approximately 35-45% of the EU average. Despite, or perhaps because of, the economic disparities between the east and the west, and recognizing the significant problems that were intrinsic to political and economical transformation, western EU countries targeted the aspiring EU member countries. These countries, with almost 100 million inhabitants/consumers had great potential for economic growth in terms of new markets, new investment opportunities and increased international trade (leading to potential improved profitability), within an enlarged EU. Foreign direct investment started to flow quickly into the region, concentrating mainly on Poland, the Czech Republic and Hungary. In the late 1990's this expanded to Slovakia and Romania following improved tax incentives within the recipient countries.

Annual growth of GDP (%)

Country	**1990**	**1991**	**1992**	**1993**
Poland	-11,6%	-7,6%	1,0%	4,0%
Czech Republic	-1,9%	-14,5%	-6,7%	-0,3%
Slovakia	-1,3%	-16,4%	-8,0%	-4,1%
Hungary	-3,5%	-11,9%	-4,5%	-1,6%
Albania	-10,0%	-27,7%	-9,7%	11,0%
Bulgaria	-9,1%	-11,7%	-7,7%	-3,8%
Romania	-5,6%	-12,9%	-13,6%	1,0%

Source: National data, EIU (2010); IMF (2000)

Consumer Price Index (CPI inflation)

Country	**1990**	**1991**	**1992**	**1993**
Poland	586%	70%	43%	35%
Czech Republic	8%	61%	13%	21%
Slovakia	8%	62%	10%	23%
Hungary	29%	35%	23%	23%
Albania	0%	36%	226%	86%
Bulgaria	22%	334%	83%	72%
Romania	5%	161%	210%	256%

Source: National data, EIU (2010); IMF (2000)

Figure 1 - Annual growth of GDP and Consumer Price Index

Accession to membership of the EU was achieved by ten states, including Poland, in May 2004 followed by a further two (Romania and Bulgaria) in January 2007. Full membership status within the EU accelerated the process of economic development both for new and old EU members, allowing further market liberalization, an inflow of EU funds, continued privatization processes and increased competition. Currently, the majority of the major infrastructure projects in new EU members, e.g. construction of highways, airports, sea ports, etc are largely financed through EU budgets.

RESTRICTIONS TO INVESTMENT OPPORTUNITIES WITHIN THE REAL ESTATE MARKET

Throughout the centrally controlled era, real estate investment possibilities were mainly restricted to the direct acquisition of real estate in the form of land, apartments or houses. Financial products considered to be more “sophisticated” in terms of direct or indirect investment within the real estate sector were not offered by financial institutions. State owned banks were not interested in these operations and foreign banks did not operate in Poland.

Stock or bond exchange markets in CEE did not operate for almost forty five years following the Second World War. Therefore, it was not possible to invest directly in companies via share acquisition or indirectly via investment funds. A bond market related to real estate securities therefore also did not exist, let alone more sophisticated structured funds or hedge funds. Following the collapse of the communist system, the Warsaw Stock Exchange (WSE) was reactivated and today is the primary stock exchange in the CEE region in terms of capitalization. It attracts companies and investors both from the region and from non European countries. In terms of the number of initial public offerings (IPOs) WSE is the regional leader and successfully competes with European leaders: London Stock Exchange, Euronext, Deutsche Boerse and SME (Spanish Exchanges).

As recently as twenty years ago, savings and investment patterns within less market-orientated CEE economies looked very different to the situation that exists today. Prior to 1989, savings and investments possibilities were mainly limited to simple deposits in current accounts in the state-owned bank. The high inflation experienced in the early 90’s discouraged saving, because real interest rates were negative, thus eroding purchasing power. Low savings ratios contributed to the inability of the banking sector to lend to commercial ventures such as real estate development thus restricting the opportunities for development.

Polish citizens were allowed to own 'property', however ownership was largely restricted to land or residential apartments or houses. The scope for ownership also differed between countries, with Poland and Hungary being comparatively liberal when compared to the former East Germany, for example where commercial real estate assets such as offices, retail schemes or warehouses, were predominantly state owned either directly or indirectly via stated owned companies. The first modern privately owned retail scheme in Poland was constructed and opened in the early 1990’s. Currently, Poland is one of the fastest developing real estate markets in Europe, attracting both developers and investors involved in schemes for apartments, commercial and infrastructure projects developed to Western European standards.

THE CURRENT ECONOMIC SITUATION

Today, the financial landscape has been completely transformed with the privatization of previously state owned banks and the introduction of competition from international financial institutions. Market liberalization and technological advancement, for example internet banking has contributed to the modernization of the banking system accompanying increased prosperity and transparency within the CEE region.

An overview of the current relevant key economic data within CEE countries is presented below. The majority of states still have GDP per capita in the range €13-15,000, but recent financial turmoil has particularly affected some of countries. The Baltic States of Estonia, Lithuania and Latvia experienced a 10% drop in GDP in 2009. The only country within the EU that maintained positive GDP growth in 2009 was Poland. Key economic indicators for Poland since joining the EU in 2004 have been very favorable, with stable GPD growth of around 4-6% p.a.; decreasing unemployment and comparatively low inflation. Recent economic trend data is illustrated in Figure 2.

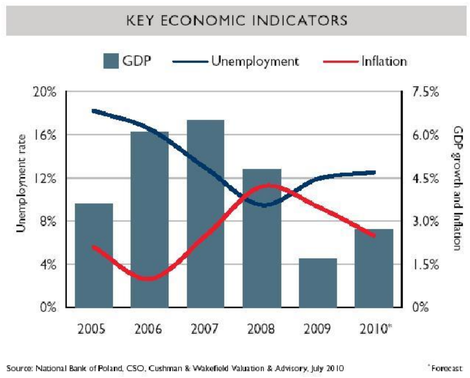

Figure 2 Key economic indicators (National Bank of Poland (2010), CSO (2010), Cushman & Wakefield 2010)

Today, Poland is a large, fast developing, well located country in the centre of Europe with a domestic market of approximately 40 million inhabitants. The stable democratic political system is highly valued by international investors. However, whilst the inflow of foreign direct investments per capita in Poland has been relatively large compared to most other CEE countries it is still smaller than other export oriented nations (e.g. Hungary and the Czech Republic).

THE RESIDENTIAL PROPERTY MARKET

Over the last two decades Poland has witnessed a significant expansion in terms of the quality and quantity of newly built residential units. Figure 3 illustrates the extent of activity within the sector through data relating to the volume of issued permits and development data relating to the last nine years. The gap between the volume of issued permits and construction starts was relatively small until 2007 as developers from Spain, the UK and Ireland were aggressively buying sites for developments, increasing land prices to unrealistic levels (Report on investment land in Poland – Prodevelopent, November '09). During the last two years, the number of issued permits significantly exceeded the number of developments started as the constraints on external finance restricted activity.

In Q1 2009, the majority of residential projects were put on hold virtually overnight by developers due to the crisis within the financial markets. Currently, the majority of "frozen" projects have restarted, with confidence amongst entrepreneurs growing (PMI index for Poland and gradual improvement in GDP growth), banks increasing mortgage lending and the situation generally slowly improving. The main issue, however, remains the access to long term capital. The supply of completed residential dwellings in Poland over the last ten years is presented in Figure 3.

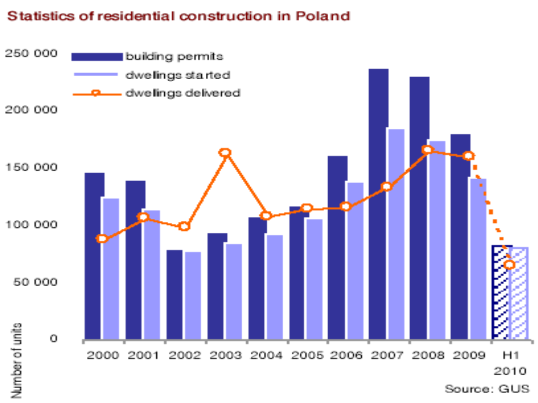

Figure 3 Development of residential market in Poland (Source: REAS (2010b)

Warsaw, with almost 2 million inhabitants, dominates all statistical analysis. Kraków, ranked second, established itself as an important academic and business offshore centre (competing directly with

Wrocław and Łódź). Almost all the major developers are present within the Warsaw market, as high demand and prices can provide higher business profitability. It is anticipated that economic development of regional cities will reduce the price disparity between these cities and Warsaw.

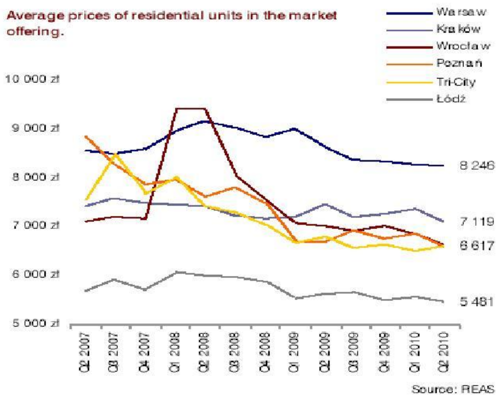

Figure 4 Number of units in the market offer in major Polish cities Source: REAS (2010b)

Figure 5 Average prices of residential units in the market offering Source: REAS (2010b)

Warsaw has the largest number of residential projects and the highest level of average prices in Poland (Figure 4 and Figure 5). The above cities were mainly targeted by international and Polish investment funds shortly before or just after joining the EU. Apartments in new projects were bought in "packages" at a very early stage of the development process. Buyers were anticipating that strong increases in value would result from Poland joining the EU as had happened previously in Spain. This scenario was partially realized as prices reached peak in 2007/8. However due to the global financial crisis many investors decided to exit by selling apartments to individuals. Many of them are now left with financial problems having purchased development land without being able to raise development finance or recover the costs of land acquisition. The value of investments in completed schemes has depreciated as prices for apartments have dropped.

THE COMMERCIAL PROPERTY MARKET

The development of the modern commercial property market in Poland has a relatively short history, dating back as to the mid 1990's when the first modern retail scheme was constructed. The following years witnessed no significant development in terms of quality, with developers focusing their efforts on unimaginative homogenous standalone hypermarkets. This sector was dominated by foreign developers with international institutional investors funding projects. These developers and investors were able to copy projects from their home market, applying their domestic criteria with respect to both construction and subsequently lease management.

Warsaw was established relatively quickly as a major office market within both Poland and the CEE region, with the capital inflow from international companies relocating to Poland stimulating the development of office market. The risk of developing in secondary or tertiary cities remains a significant factor limiting investment, with insufficient tenant demand restricting development. The first modern 'grade A' office buildings in Warsaw were developed in the late '90s, but the majority of them today are treated as a lower grade A as technological specifications advance, with newly built higher specified schemes (e.g. Rondo 1 – skyscraper) representative of the current prime 'grade A' asset.

Industrial/warehouse markets are dominated by a few large developers (e.g. Panattoni, ProLogis and SELGRO) who provide together almost 90% of the total supply in only a few locations, typically at major highway intersections. After completion, the majority of developers choose not sell their assets.

This has created a relatively small and illiquid investment market which is typical of the situation in other emergent CEE countries.

Retail Market

The supply of retail space has gradually increased with the majority of stock delivered in the form of shopping centres, whilst the share of standalone hypermarkets has gradually decreased (Figure 6). Stable retail supply growth was facilitated by expansion within secondary Polish markets. Major cities such as Warsaw, Poznań, Kraków or Wrocław are considered to be saturated with new schemes considered high risk. These cities were the main target for investment property funds, while today the whole country is almost covered, but less risk averse investors' focus on these cities.

Figure 6 Supply of modern retail space in Poland (Cushman & Wakefield 2010a)

Office Market

Modern office space in Poland is mainly concentrated in Warsaw, with supply driven by strong demand from national and international companies locating their headquarters in the capital city. Modern office stock of 3.1 million m² exceeds the total stock of all the secondary cities combined. Rental levels presented are prime rents, but even in Warsaw there is plenty of available prime quality space with rents of 14-16 Euro/m²/month, although not in prime locations. Future growth is expected in secondary cities, primarily in Wrocław, Katowice and Łódź, rather than in Warsaw (Figure 7).

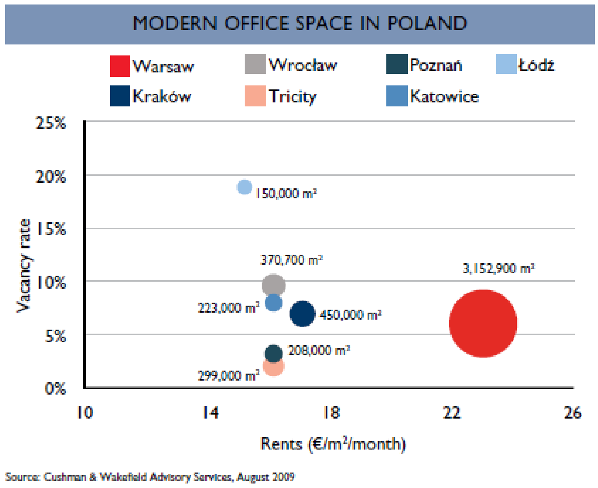

Figure 7 - Modern office space in Poland (Cushman & Wakefield 2009b)

Industrial Market

The development of industrial/warehouse space is directly correlated with development of transport infrastructure. The poor quality of the road system is still a major issue for many investors, but recently development has accelerated, stimulated by infrastructure development related to the Euro 2012 football championships, creating logistic hubs. The main industrial hubs border Warsaw, Poznań, Łódź and the Silesia Region. Supply is not speculative, but provided in-line with identified occupier demand (Figure 8).

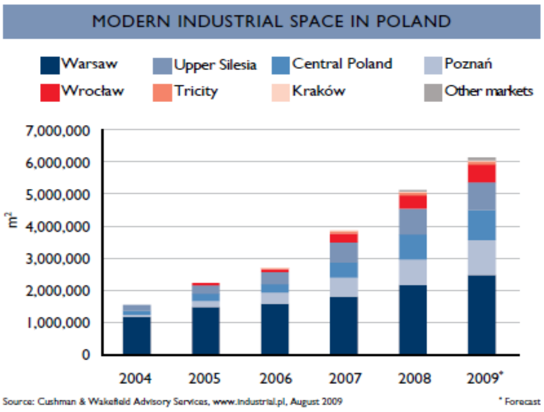

Figure 8 Modern industrial space in Poland (Cushman & Wakefield 2009c)

THE INVESTMENT MARKET

Overview

The real estate investment market in Poland reached a record level in 2006, with over Euro 5BN of transaction volume, mainly in the office and retail sectors. Due to the financial crisis, limited access to bank financing and financial problems of many investors and developers the volume decreased to only Euro 0.5BN in 2009. According to many real estate consultants the Polish market reached its lowest point in 2009 as already in 1H 2010 investment volume was higher than in the whole of 2009. Office deals dominate as these assets experienced strong decrease in capital value throughout the previous three years through a strong decrease in rents and increase in yields.

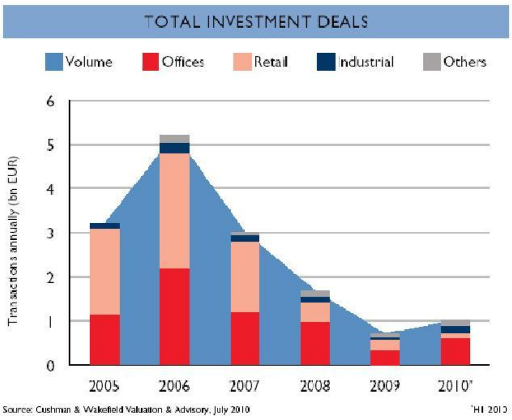

Figure 9 – Total investment deals in Poland; Cushman & Wakefield (Autumn 2010)

Figure 10 - Index of real estate developers listed on the WSE(Autumn 2010)

The strong correlation between the real estate investment volume of commercial properties and index of real estate developers can also be observed (Figure 9 and Figure 10). The development of the real estate market in Poland can therefore be summarized in the table shown in Figure 11.

Date	Before ‘90	’90-‘02	’03-‘07	’08-‘09
Economical situation	Social economy. Lack of free market.	Sharp drop of production. Since ’93 gradual recovery. Strong growth till ‘01 (internet boom). Market crash in ’02.	Slow recovery after internet crash. Since ‘04/5 gradual growth till peak in ‘07.	Start of US crisis, followed by troubles in financial sector. Finally production sector strongly hit.
Construction sector	Dominated by state owned companies.	Foreign companies enter Poland. Private sector booms. Market growth fuels new constructions.	Excellent years for development of commercial property market.	Lack of external finance. New developments cancelled or stopped.
Investment market	Did not exist.	First funds created. No deals done. A lot of speculation. Investment focused mainly on residential market.	International and domestic funds created. Volume of deals rapidly grows.	Capital markets in crisis. Recovery of capital markets since Q2 ’09. Real estate market is still “frozen”.

Figure 11 - Summary of the commercial property market

The Maturing Market

The quality of both residential and commercial investment products is maturing with vehicles now available that would be familiar to those operating within the western EU market. The market is well structured, organised and regulated with strong competition within the markets for land acquisition, design, construction, letting and sale. Major consulting firms are well established in Poland, e.g. Cameron McKenna, Linklaters, Clifford Chance, White & Case (legal); EC Harris, Euromost and DIL (engineering); Cushman & Wakefield, JLL, CBRE, Knight Frank and King Sturge (property consultancy).

One impediment to development concerns legal issues. For example, courts in Poland have a reputation for being procedurally quite slow and in many cities ownership disputes dating back to World War Two land reparation have not yet been resolved.

Investment securities based on real estate assets

As recently as ten years ago, no funds operated in Poland dedicated to investing in real estate, whether residential or commercial. Investors willing to invest in the property market from abroad were only able to enter the market through direct acquisition, thus exposing themselves to currency risk.

Figure 12 - Sector index of real estate development companies quoted on the Warsaw Stock Exchange (2010)

Figure 12 illustrates the “real estate developer’s index” on the Warsaw Stock Exchange since its inception. Gradual growth during the 1990s was followed by rapid growth. Years 2007 and ’08 have been extremely painful, including bankruptcies.

Strong price and earning volatility of real estate development companies was also reflected in price/earning (P/E) and price/book value (P/BV) indicators. In Q4 2007, share prices were extremely expensive with P/BV ratios reaching over 5:1 and P/E over 35:1, which could be interpreted as shares were yielding approximately 3.0%. An enormous real estate bubble existed (similar to the internet bubble at the start of the century) when market values exceeded reasonable valuations. In 2008 prices declined, bottoming in early 2009 when confidence was at a minimum level. Prices were shown to be extremely undervalued at that point (e.g. P/BV < 0.5 in majority of quoted companies), therefore when wider economic prospects improved, a sharp rebound of price levels was observed across the market.

Investment patterns in Polish society

Data regarding the volume and structure of saving and investment in Poland is measured on a regular basis by a number of authorities, including several governmental agencies, institutions, the National Central Bank of Poland and many private companies. These databases, however, do not disclose the full picture of the market situation because a significant share of savings by Poles is stored in the form of cash in homes and is neither registered by banks nor disclosed within any official statistics. As of 2009 almost 23% of the population in Poland does not even have a bank account – according to a report provided by the National Bank of Poland (NBP, Treasury Department, December 2009). Often salaries are divided into two parts, the 'official' part and the 'unregistered' part, which are used mainly by small and middle size companies as an income tax avoidance technique to increase net salaries. This limits the reliability of official data regarding savings, which in reality is much higher than is recorded by official statistics.

The financial crisis impacted when some assets (mainly equity based) depreciated thus reducing the value of total savings. The decline in investment fund values and shares pushed the savings ratio from a record level of 62% in 2007 to 55% in 2008 (Source: Analizy Online, 2008).

The economic impact of Polish emigration should also be noted. According to analysis by Capital One Advisors and Euro-Tax.pl, Poles have earned almost €125BN within the last 5 years working in Ireland or the UK, and sent officially (registered) back to Poland €21BN. This makes Poland among the top global countries in terms of the value of money sent back to their home country by emigrants, and perhaps the largest contributor in terms of per-capita contribution, given Poland's comparatively small population (vs. India or China for example).

Additionally, the savings and investment profile of Polish households has been transformed over the last ten years. At the beginning of this period savings were predominantly in the form of bank deposits or cash, with only 10% allocated in any other form. However, reform of the pension system in 1999 resulted in a rapid increase in the proportion of savings invested in pension funds and investment funds. The situation significantly changed in 2007, fueled by the swift withdrawal by investors from higher-risk products.

The immaturity of capital markets within Poland restricts the availability of some asset classes to individual investors. For example, the bond market is relatively poorly developed and is dominated by government bonds. International venture capital funds operate within the CEE, but capital is mainly Anglo-American and access for individuals from Poland is restricted.

THE SCOPE FOR INVESTMENT VEHICLES

Direct Investment

Residential property is the major sector for investment in real estate by individuals. The rapid growth of this sector has been partially fueled by developments in bank financing as fourteen years ago mortgage financing in Poland simply did not exist and very few individuals had the wealth to purchase property outright. The demand for property ownership has grown, particularly among young professionals. Support systems from the banking sector were complex whilst increasing prices made loans necessary for potential purchasers with limited equity and also made apartments and houses an attractive investment through capital growth. These dynamics stimulated interest in external financing using mortgage loans from the demand side and the financial sector developed new mortgage products. Some individuals within the higher income tax brackets are now using finance to buy their second apartment as a form of investment.

An analysis of the major advantages and disadvantages in direct investment in real estate which apply to all sectors is presented in the Figure 13.

DIRECT INVESTMENTS IN REAL ESTATE	
ADVANTAGES	DISADVANTAGES
Stable annual returns generated by properties in the form of rental income Value appreciation of assets over time Lower historical volatility of returns than shares Stability over time, bankruptcy is not as likely (depending on leverage) as might be the case with shares High leverage in property acquisition increases returns Mortgage on property can provide funds for other investments Access to larger assets can be achieved via investment in property funds; however some fees will have to be paid to fund managers.	Large investment volume of individual asset, therefore bank financing is required – on the other hand bank financing leverages returns. Market knowledge is essential to select good properties – e.g. with regards to technical aspects of assets. Individuals can afford only apartments, and access to large investments is restricted e.g. commercial properties, offices, shopping centres and warehouses.

Figure 13 – Advantages and disadvantages of direct investments in real estate

The Securitisation of Real Estate

An interesting opportunity for investors is now the indirect investment in real estate through the acquisition of shares (or certificates) in a company that owns or operates within this market. Through the purchase of shares, an individual investor can anticipate dividends and increases in capital values. The main advantages and disadvantages of investing in capital markets are presented in the table below.

A proposed investment in shares or certificates of listed property companies could be achieved in one of the following ways:

- Direct acquisition of shares of listed companies on the stock exchange. Acquisition and sale fees would cost approx. 0.8% of acquired shares. Profits would be taxed at 19% .
- Acquisition of shares within funds investing in the property market. An acquisition fee of 2-4% would be charged, coupled with a management fee of 1-2% of invested amount per annum. Profits would be taxed at 19% paid by the fund at shares redemption.

INDIRECT INVESTMENTS IN REAL ESTATE BY USING CAPITAL MARKETS – SHARES OF PROPERTY COMPANIES	
ADVANTAGES	DISADVANTAGES
• Investor can decide in what shares to invest. A portfolio of shares (to spread the risk) can be easily created. • Profits can be generated either in a form of dividends or capital gains. • Shares can be easily sold and bought at a relatively low cost. • Taxes are calculated by brokerage houses (but paid by investor), therefore no problem with tax calculations for individual investors. • Investors can invest in firms focused on a specific sector or country. Investors can spread the risk by selecting companies operating in different countries and sectors. • Acquisition and sale costs are low. • No special market knowledge is required. • Property companies usually have a large capitalization, which attracts also institutional investors (e.g. pension funds) and brings stability.	• High volatility of returns and uncertainness related to capital markets. • Analysis of target companies is required; therefore knowledge in the area of finance and economics is essential. • In most of CEE countries, stock exchanges are poorly developed, with very small capitalization and only a few listed companies – e.g. in Czech Republic and Hungary there are approximately 40 listed companies. A positive exception here is Poland. • Shares of listed companies might move in a cyclical or counter-cyclical way with respect to those of other companies. • Limited control over investment decisions is not taken by individual investors.

Figure 14 – Indirect investments in real estate by using capital markets – shares of property companies

Capital Markets and Funds

INDIRECT INVESTMENTS IN REAL ESTATE BY USING CAPITAL MARKETS - INVESTMENT IN FUNDS FOCUSED ON PROPERTY COMPANIES	
ADVANTAGES	DISADVANTAGES
• No market knowledge is required in the area of real estate. • Shares of property funds can be easily bought and sold with little or no cost. • Very well diversified portfolio can be created, focusing market segments: e.g. retail, office, hotels.	• Fees and management costs might decrease returns. • Limited control over investment decisions.

Figure 15– Indirect investments in real estate by using capital markets – investments in funds focused on property companies

THE SURVEY

The purpose of the primary research undertaken was to investigate the attitude of potential Polish investors to alternative investment real estate products. The survey was carried out with respondents from differing professional and social backgrounds. The aim of this preliminary survey was to gain an insight into the likely scale of interest to assess whether more systematic and extensive market testing would be worthwhile and if so to guide its design.

The questionnaire was designed to eliminate ambiguity and to encourage honesty and was limited to ten questions to encourage engagement. Biographical questions were used to identify the characteristics of the sample population, and then attitudes to saving and investment were investigated. The key findings are discussed below.

1. Age of respondents

The research subject group consisted mainly of young and mid-career aged people, usually in their second or third job after university graduation. Almost half of the interviewees were aged between 30 and 40 years old; a group most likely to have significant income and to be actively considering diversifying their savings and investment portfolios. According to a survey carried out by WSE, a similar group profile is active on the stock exchange.

In Poland, young people under 30 years old do not, as a group, have sufficient financial resources and experience to invest. They are focused upon paying for education, holidays, accommodation, or expenses associated with raising a young family, etc. A similar situation limiting their engagement with investment opportunities concerns those over 50, who did not grow up within a capitalist economic system and, with limited private resources, are currently either unable or unwilling to participate in private investment opportunities.

2. Current professional activity

Identifying the professional activity of the responding group is important. Almost half the respondents are employed within the finance, banking or investment sectors. The next most represented group, legal and administration, includes both public and private sector employees. Some respondents did not provide clear answer, or were unemployed. This population suggests that those questioned should have an above average knowledge of finance and investment.

3. The percentage of monthly disposable income allocated to investments.

Poles are generally reluctant to provide answers related to their personal finance. However, as almost 75% of the above responders are employed within the finance or legal/administration profession, this implies significantly above average salary levels. Data from the statistical office indicates that this can be 2 to 3 times higher than the national average.

Usually, high salaries directly correlate with high disposable income, and therefore a potentially high proportion of saving or investment. This data may be skewed, however, because Poles may consider the repayment of a property (e.g. apartment) loan as a form of investment. Almost 80% of respondents allocate less than 30% of income in savings.

4. What do you consider to be the best options for saving and investment?

Relatively safe and low risk products are not perceived by many as the best option for saving or investment. Generally in Poland, bank-based saving is popular among older people, reluctant to take financial risks. Riskier alternatives, e.g. equity investments or investment certificates, are understood by responders. This does not mean, however, that this type of equity-based investment is actively participated in by this group, because the associated risk may alienate conservative investors. Real estate, ranked third, may potentially attract funds dedicated to this sector. Only 10% responded in favour of debt securities. In reality, these types of assets are in fact a major core component of all pension funds and mixed type investment funds.

5. Do you use professional support in planning your investment decisions?

Respondents are generally willing to make investment decisions by themselves even though investment requires some level of market knowledge. A common problem in Poland is tax liability, which frequently changes and is regularly traced by tax professionals. Most investors require some form of professional support. With rapid market development, individual investors are not able to keep up to speed. Professional advisors, therefore, offer services ranging from simple investments to complex financial products, including financial, tax and insurance components.

6. What is your risk / return profile when investing?

This is an interesting question, because respondents are quite often lured by potential returns thus forgetting about risk. Returns (mainly historical data) are easy to measure and (in the case of good results) were often and widely published by investors. Risk, however, is approached differently. All investment products have a section in their prospectus describing the potential risks associated with the product, but average investors do not find this interesting and may not engage with it. All the more sophisticated forms of investment involve risk.

7. What are the main advantages of investing in real estate from your perspective?
Investment in real estate within Poland is generally perceived very positively. This is mainly due to historical reasons, because during communism times, real estate was one of the only saving/investment possibilities. In the 1990's during the high inflationary period, real estate was perceived as a good protection against rapidly rising prices. Nowadays, with the market and political situation more stable, property is perceived to be a good form of investment, yielding certain annual returns (from rents) with potential for capital gains.

8. What are the main disadvantages of investing in real estate from your perspective?
Although the advantages of property investment are well known to the general public, people are also aware of the associated problems. Whilst, for example, the choice of apartment to be purchased is determined mainly by personal preference; the commercial investment landscape is more complex. The complicated terminology of yield, discount rate, financial leverage etc seems to be unclear. These terms are in daily use for property professionals when quoting and comparing real estate investment opportunities, but are alien to lay investors.

The primary impediment to investment, however, is the large capital requirement to facilitate this investment. For many, the acquisition of an apartment is very often a highly leveraged deal made once in a lifetime. Commercial assets, even simple small retail stores, are unobtainable for the majority of individuals. Therefore, the commercial property market - retail, commercial and industrial - is dominated by institutional investors.

This situation, however, creates excellent possibilities for individual investors. The majority of these institutional investment funds are publicly quoted thus enabling investors to purchase shares, rather than being limited to engaging through direct acquisition. This reduces these impediments to investment and these funds, targeting individual investors, have become increasingly active within the Polish media over recent years.

9. What other alternative investments based on real estate are you interested in?
Alternatives investments in Poland are becoming popular, but one of the most popular international types of investment, hedge funds, is still not known to the general Polish public. There are only a handful of these funds created by Poles; hence clients generally have to use foreign investment managers. Other investment structured products, e.g. bonds plus options, are now being introduced, but their performance over the last two to three years of operation in Poland does not inspire confidence.

Investing in the shares of funds focusing upon the real estate sector appears to be an excellent investment option for people wishing to combine above average returns with stability and flexibility. The direct acquisition of real estate involves many difficulties, mainly related to the large capital required to do so. Alternative investment opportunities available to the potential real estate investor permit both financially small investment and the easy withdrawal of funds at any time.

10. Would you consider investing in alternative investments based on real estate?
The final question indicates that the alternative/securitized real estate investment market has great potential in Poland. Whilst 20% of the sample had already invested, a further 70% of respondents would consider investment, but further information, probably in the form of professional advice, would be needed. Only 10% of the sample population would not consider investing in alternative investments related to real estate.

CONCLUSIONS

Over the last two decades, Poland has proved that it is able to successfully transform itself from a social to liberal, market-led economic model. The political system has been transformed from a one party communist state to a modern democracy. During this period, the country has joined both NATO and the European Union. Currently, Poland is ranked in 18th position in the world in terms of economic potential (International Monetary Fund, World Bank and CIA World Factbook). Poland has also managed to go through the recent financial crisis without falling into recession – the only country within the European Union with positive growth in 2009.

Poland is still undergoing an economic, political and social transformation. Some of these changes can be easily traced by analysing statistical data, whilst others, predominantly social transformation, are more complex and not easy to measure.

This work began with a general economic review of the economy and discussed the related changes within Polish society in order to place the investment attitudes within an appropriate context. With regards to the investment attitudes of Poles, the research highlights the major characteristics and shows the potential for development.

The analysis of investments and saving patterns suggests that there is scope for more sophisticated and complex tools and products within the Polish market. Today, simple savings deposit accounts held in a bank do not satisfy many people. The research suggests that there would be a market serving those individuals with sufficient disposable income for broader investment vehicles.

The historical overview of investments related to real estate and capital markets showed that real estate is considered to be a reliable long term investment option, though there are both advantages and disadvantages of direct investment. Real estate companies and funds have performed relatively well over the last ten years in terms of capital growth.

The research indicated that Poles employed within the financial and professional sectors of the economy are likely to be interested in new investment opportunities based upon the real estate market. The main obstacles to investment, however, were related to both complexity and lack of knowledge. This could potentially be overcome through improved financial education thus reducing the perceived complexity of these products.

Accordingly, it is hoped that real estate investment can be an excellent opportunity for many people, perhaps forming part of a wider portfolio. New investment vehicles would not only benefit individual investors but could also provide funds for further development of the Polish economy.

Further research should focus upon further identifying and resolving the perceived barriers to understanding that currently inhibit public engagement with real-estate related financial products.

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