DENTONS

Knight Frank

RE: BTR

BUILD-TO-RENT LIVING SECTOR

2024

REVIEW, TRENDS AND OUTLOOK
FOR BTR MARKET IN POLAND

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INTRODUCTION

As we embark on a journey through the vibrant landscape of Poland's Build-to-Rent, it becomes increasingly evident that the country's living market is undergoing a profound transformation. Mirroring broader trends across Europe, Poland is experiencing a notable surge in the rental market, driven by shifting demographics, economic dynamics, and recent socio-political developments, notably the influx of Ukrainian refugees.

Fresh insights illuminate a compelling growth narrative, with over 16,000 BTR apartments made available for rent by institutional investors by the close of 2023. This remarkable 40% increase within the calendar year, underscores the growing significance of the rental sector in addressing the evolving housing needs.

Major urban centers like Warsaw stand prominently in this narrative, contributing significantly to the growing BTR stock. However, it's noteworthy that regional cities such as Wrocław and Kraków are also witnessing substantial development, showcasing the sector's potential across diverse geographical regions.

Looking ahead, the outlook for Poland's BTR sector appears promising, with robust development pipelines and sustained investor interest poised to propel further expansion. Navigating through the intricacies of the business environment, including inflationary pressures and interest costs, presents both challenges and opportunities, paving the way for innovative growth strategies and collaborations within the BTR market.

As we explore the depths of this transformative landscape, it's clear that Poland's BTR sector holds immense potential, attracting interest from diverse investors across the globe. Through collaborative efforts and strategic initiatives, we anticipate unlocking the full spectrum of opportunities inherent in Poland's evolving BTR landscape.

KRZYSZTOF CIPIUR
Managing Partner, Head of Capital Markets
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The global economic and political landscape is changing rapidly as new challenges appear on the horizon. Poland and its real estate market is a part of the global economy and is affected by the same positive and negative megatrends, such as high interest rates, migrations, remote work, climate change or urbanization.

The Polish Built-To-Rent (BTR) market (occasionally referred to also as the Private Rented Sector (PRS)) has already attracted several major international players, demonstrating strong fundamentals and growth opportunities. Even though a record number of apartments will be made available through BTR schemes in 2024, private home ownership still dominates the scene in Poland. This historic trend was reinforced strongly in 2023 by "2% fixed loans" subsidized by the Polish State, which translated into over 55,000 apartments sold to individuals. To some extent this program offered a helping hand to residential developers, temporarily diverting their projects away from the institutional market. However, it is expected that subsidized loans will not be continued in their present form, which may in turn contribute to re-awakening developers' interest in block apartment transactions with institutional market players. Recently announced plans for REIT legislation may also be an important game changer for the market.

In 2023 a major overhaul of the Polish zoning system came into force, but it's full impact will only be felt in 2026. The new law will have significant impact on residential developments, which in principle will need to be placed in mixed-function areas and observing local development standards concerning access to schools, public greenery, etc. Moreover, issuing individual zoning decisions will be limited both in time as well as in scope. The aim of the new legislation is to push the municipalities towards more long-term planning covering the entire municipalities' area, and thereby departing from the current piecemeal approach, where only parts of the municipalities were covered by master plans and individual permits could be issued for most types of developments. The new law, however, does not resolve the main legal question of importance for BTR developments, concerning their location within service or residential zones.

Thus, every year brings new developments for investors and developers in Poland. Navigating between opportunities and challenges requires deep knowledge of the local market and understanding of the leading trends. We hope our report will shed some light on the complexities involved, and assist its readers in seizing the chances offered by the dynamic BTR market in Poland.

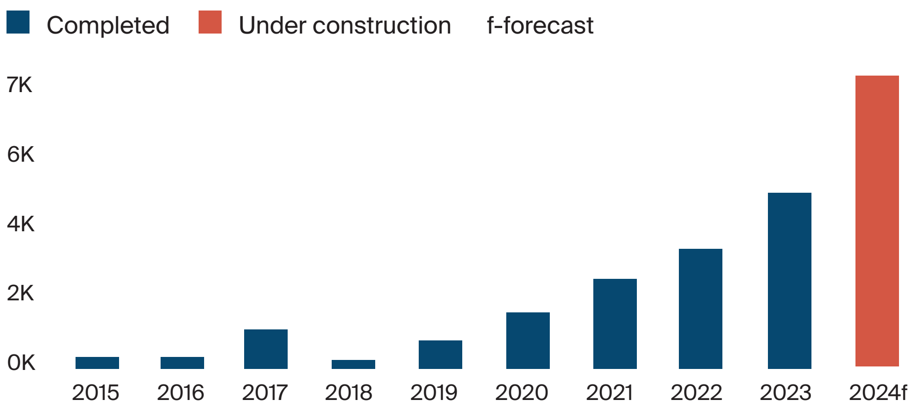
PIOTR STANISZEWSKI
Partner, Real Estate
Dentons

01. BUILD-TO-RENT IN POLAND

MARKET OVERVIEW

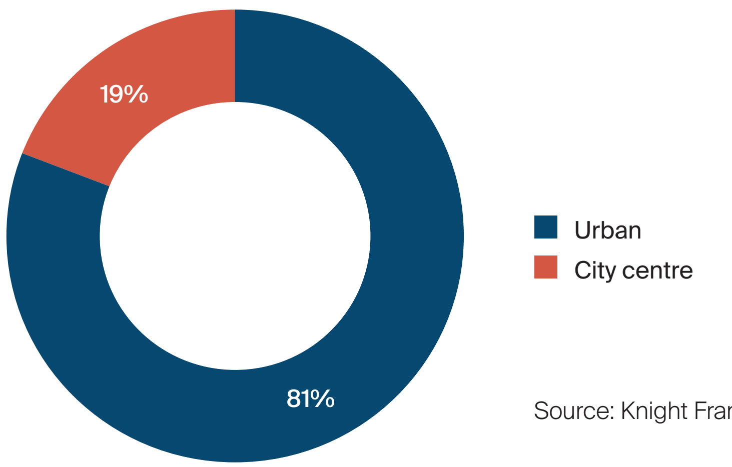
The Build-to-Rent (BTR) in Poland has experienced remarkable growth in recent years, reflecting a dynamic shift in the country's housing landscape. Traditionally, Poland has had a strong culture of homeownership. However, changing demographics, economic trends, a growing population of young professionals, and an influx of 1.2 million Ukrainian refugees have contributed to the increasing importance and expansion of the rental market. This resulted in over 16,000 BTR apartments being available for rent from institutional investors by the end of 2023, with nearly 32% being completed in the calendar year. It's important to note however that BTR amenities constituted just 1.4% of the overall rental housing inventory in major Polish cities, while the privately owned rental housing stock is estimated at over 1.2 million units. The dynamic real estate market and prevailing socio-economic conditions are presenting new opportunities for further expansion of the living sector in Poland.

Chart: **Annual supply of BTR apartments**



Source: Knight Frank

Chart: **Location of BTR projects in Poland**



Source: Knight Frank

In 2023, Poland's BTR witnessed a historic milestone, marked by the highest annual supply since the inception of the BTR market in the country. During 2023, more than 5,100 new BTR apartments were delivered to the market. As a result, BTR stock has risen by 40% compared to the previous year. This notable surge in new supply reflects a growing recognition of the demand for rental properties and a concerted effort by developers and investors to meet the evolving needs of the population.

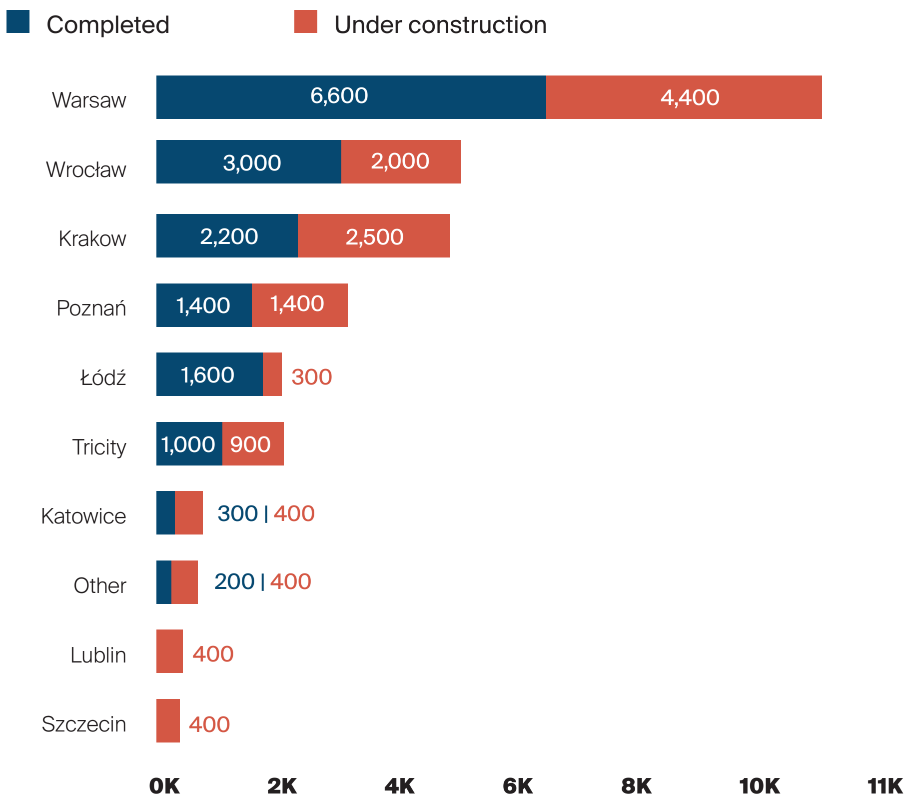
In its early phases of development, the BTR market has primarily expanded within major cities. This expansion also encompasses several instances of BTR initiatives in satellite areas adjacent to major urban centres, such as Piaseczno. Additionally, new BTR projects were observed in cities like Lublin and Bytom benefiting from increasing demand from students and Ukrainian refugees.

Warsaw holds the distinction of being the largest BTR submarket in Poland, with approximately 41% of the total BTR stock in the country. There are currently over 6,600 BTR apartments in Warsaw, with an additional 4,400 units currently under construction. In 2023, Warsaw experienced remarkable growth, with a 40% increase in the total stock compared to the preceding year.

Regional cities are also keeping pace with the capital in terms of development. In comparison to 2022, the total stock of BTR units in regional cities has surged by more than 50%, resulting in an inventory of over 9,600 BTR apartments. Among these regional cities, Wrocław possesses the highest share of the regional BTR stock, with 3,000 units, closely followed by Kraków with 2,220 units and Łódź with 1,600 units. In terms of growth rate, Łódź experienced the most significant increase in BTR stock in 2023, nearly tripling the result from 2022.

As of the end of 2023, approximately 13,000 units spread across ca 40 projects were identified as being under construction in Poland. Developers' schedules indicate the delivery of 7,300 apartments by the end of 2024, with the most substantial new supply anticipated in Warsaw, Krakow and Wrocław. The foreseeable future is expected to witness continued robust development in the institutional rental market. Investors, who have already secured land banks, are positioned to construct around 36,200 apartments in the coming years.

Chart: **BTR stock and supply under construction by location (Q4 2023)**



Source: Knight Frank

Source: AFI Europe

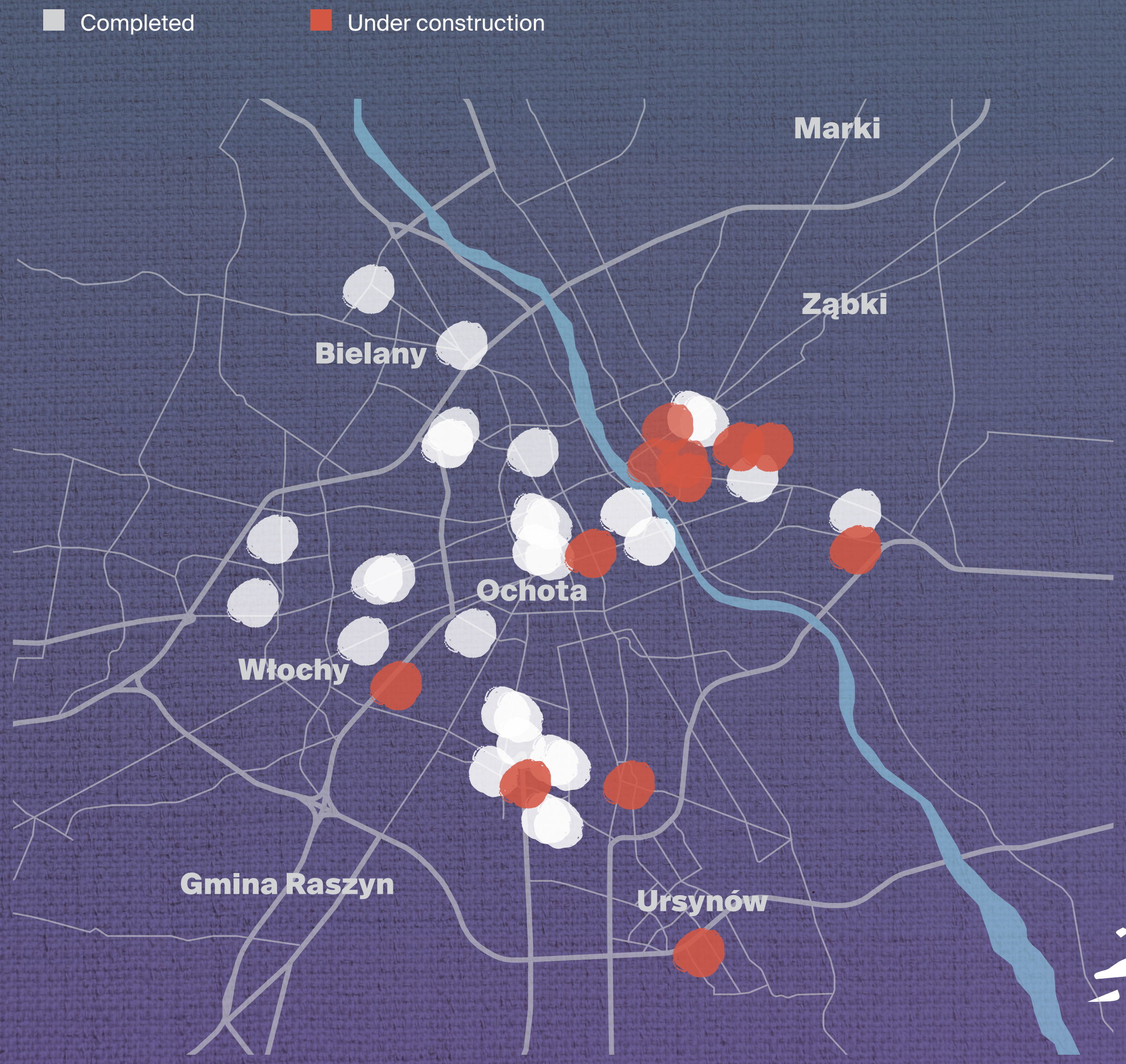
CASE STUDY

Warsaw – location of BTR projects within the city

In markets at the initial stage of development, BTR schemes are typically situated in prime city locations, where apartment purchase prices are at their highest. In Poland, 81% of BTR apartments are located in non-central areas but in close proximity to business hubs, universities, or districts with excellent public transportation to the city center.

Our analysis of BTR project locations within cities focused on the example of Warsaw, the largest BTR market in Poland. Existing schemes are spread throughout the city, with the majority located on the left (western) bank of the river. Approximately 19% of the apartments are situated in the strict city centre, while a further 35% are found in the Mokotów district, a neighbourhood near the largest non-central business hub, which accommodates over 100,000 employees in almost 1.48 million square metres of office space. Among the supply under construction, the largest number of apartments will be delivered shortly in the Praga district and the Mokotów district.

Map: **Location of BTR projects**



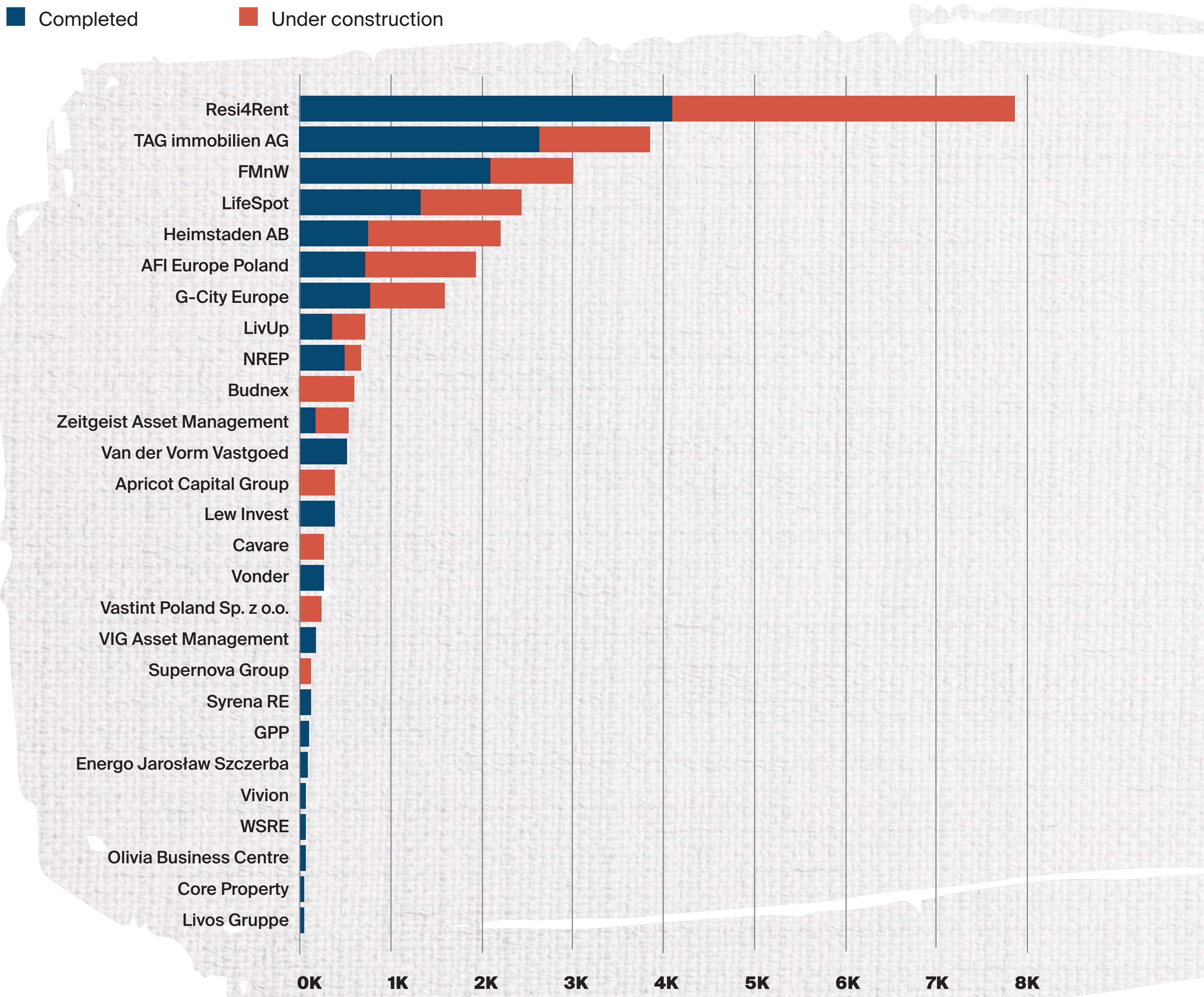
INVESTORS

The Polish Build-to-Rent market currently accommodates both domestic and international operators with extensive experience in the field. The largest BTR platform in Poland, Resi4Rent, is owned by developer Echo Investment S.A., global investment management firm PIMCO and Griffin Capital Partners. The second largest operator, Fundusz Mieszkań na Wynajem, is an institution financed by Bank Gospodarstwa Krajowego, a Polish state bank wholly owned by the State Treasury. Other operators with Polish capital include Lew Invest and Syrena RE.

By the end of 2023, Resi4Rent held the largest share of the existing stock at 26%, offering almost 4,140 apartments in 14 projects through its platform. Other notable investors included TAG Immobilien, which had 2,600 apartments in 13 projects on its Vantage Rent platform, and Fundusz Mieszkań na Wynajem, with over 2,120 units across 20 projects. It's worth mentioning that optimistic prospects for the BTR market have attracted new entrants such as Vastint, which made its debut in the sector in 2023.

Looking at the development pipeline, Resi4Rent currently leads the way with the highest number of units under construction, aiming to complete over almost 3,770 apartments within the next two years. Other active participants are AFI Europe Poland and TAG Immobilien, which envision substantial expansion in the sector each with around 1,200 units in the pipeline.

Chart: **Investors on the Polish BTR platforms**



Source: Knight Frank

Source: LivUp

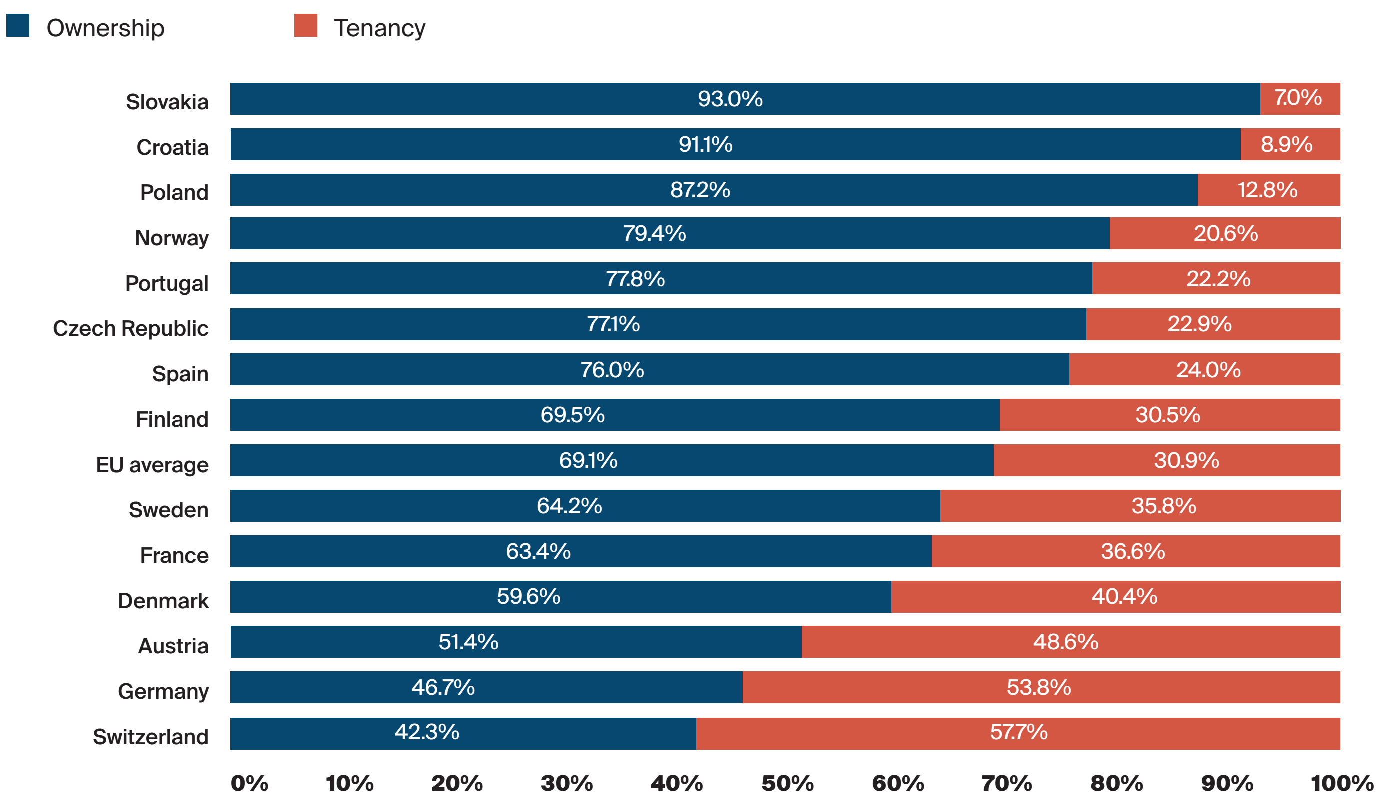
DEMAND DRIVERS

The evolving residential market and prevailing socio-economic conditions are paving the way for continued growth of BTR in Poland. Another important growth factors are limited supply in the residential sales market, reduced availability of mortgages, and escalating apartment purchase prices.

Housing market deficit

In general, the demand for housing in Poland is robust due to a significant housing market deficit. According to Eurostat data, in 2022, the average number of rooms per inhabitant was 1.1, slightly lower than the 2021 average of 1.2. For comparison, the EU20 average in 2022 was 1.7 rooms per inhabitant. In this comparison, Poland had 4th lowest rank, ahead of Romania, Slovakia, and Montenegro.

Chart: **Structure of the housing market in selected European countries (2022)**



Source: Eurostat

Supply gap in residential market

The housing market is seeing a revival in demand, but it's also facing a supply-side slowdown. High inflation costs alongside land availability shortage and inefficient administrative processes, are collectively affecting the speed and cost of housing development projects.

According to 2023 data from Statistics Poland, developers completed 221,000 new apartments, representing an 7% increase from the previous year. Statistics Poland estimates that as of the end of December 2023, over 801,800 apartments were still under construction, signifying a 4% decrease compared to the corresponding period in 2022.

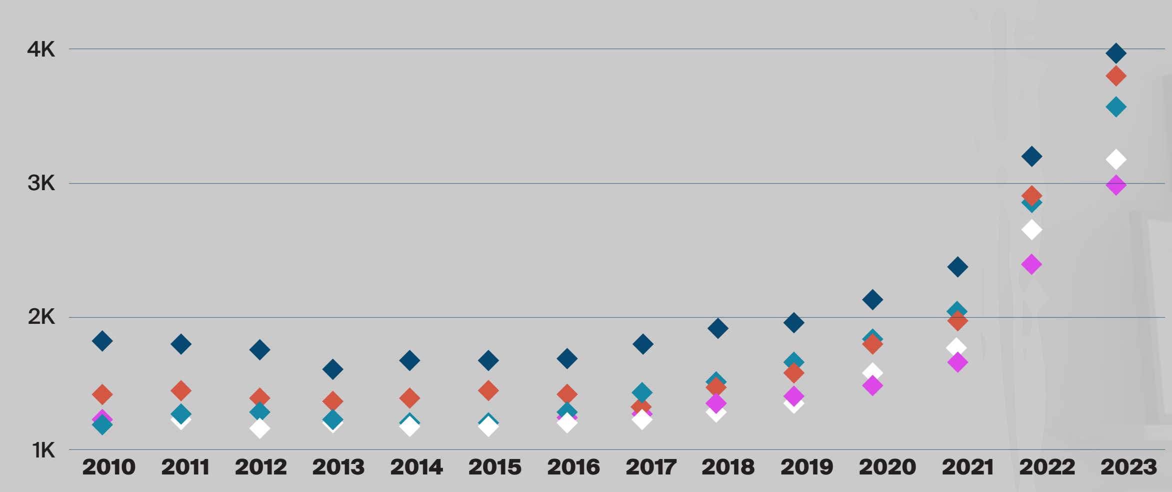
The decrease in activity among developers in the Polish housing market translates into a reduction in the available supply of housing in the country.

Source: Vonder

Prices in residential market

Prices in the housing market continue to rise, reflecting strong demand and limited new supply. Consequently, with higher demand, an increase in residential sector prices could be observed. In Q4 2023, the average offer price per square metre of an apartment increased by 20% in Warsaw and 12% in regional cities compared to beginning of 2023. In Q4 2023, the average primary market transaction price in Warsaw was estimated at PLN 16,500 gross per square metre, while in the six regional cities, the figure was PLN 14,100 gross per square metre.

Chart: **Average price of apartments for sale (EUR/sqm)**



Source: Knight Frank based on Cenatorium

Purchasing capacity

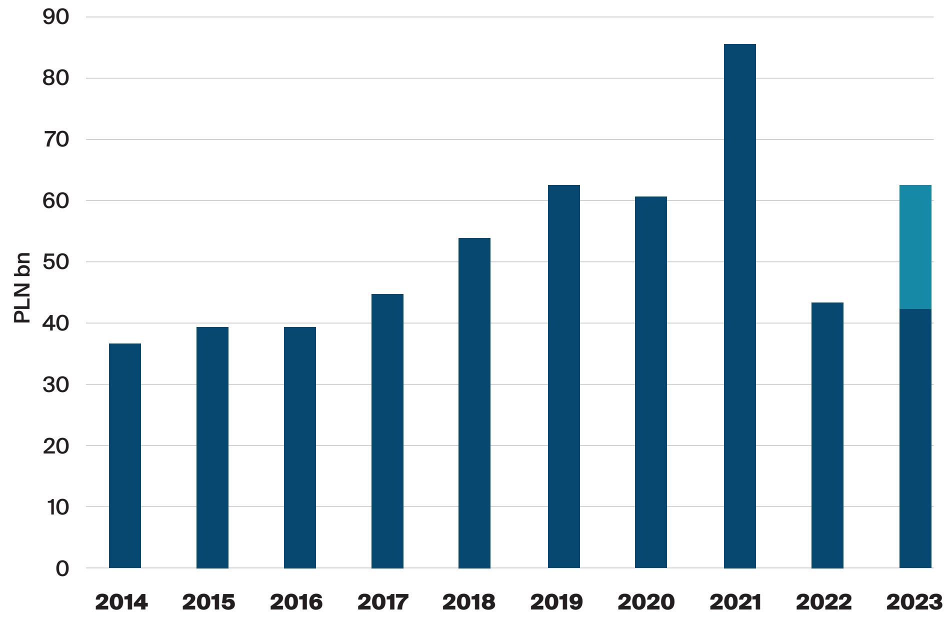
The purchasing power of Poles is constrained and on a declining trend, as housing prices are growing at a faster rate than salaries. In 2022 equivalent of an average annual salary allowed to acquire 7.9 sq m of a statistical apartment in Poland, down from 8.4 sq m in 2012.

Additionally, there has been a reduction in mortgage availability. Although credit conditions eased early in 2023, they continue to be tighter than before the interest rate increases in 2021. It's worth noting that in 2023, mortgages amounting to 62.8 billion PLN were approved, marking a 44% increase from the previous year. However, the substantial bank lending was attributed to the introduction of the government's mortgage subsidy program. Excluding the Secure Credit 2% Programme, lending in 2023 was 3% lower than in 2022, representing the lowest level in seven years.

The combination of restricted purchasing power and limited access to mortgages has led to housing demand being increasingly met through renting.

Source: AFI Europe

Chart: **Total volume of mortgages granted by year**



Source: Knight Frank based on Polish Banks Association

Rent vs mortgage

The relationship between the average monthly rent and the mortgage instalment is often considered by individuals making decisions about purchasing their own home.

In Poland's major cities, rental rates in both the private landlord market and the BTR market are lower than the monthly mortgage instalments. This difference is more pronounced in the private rental market, where rents are typically lower due to the lower quality of the available flats.

A comparison of these values reveals a significant disparity, as mortgages evidently impose a greater strain on household budgets, thus creating greater potential for growth in the BTR sector.

		WARSAW	WROCŁAW	KRAKOW	GDAŃSK	POZNAŃ	ŁODŹ
Average asking monthly rental rate for 1-bedroom apartment (excluding metered and administrative fees) (PLN)	Private landlord market	3,010	2,380	2,430	2,430	1,990	1,700
	BTR market	3,380	2,415	2,440	2,580	2,482	1,710
Monthly loan repayment for mortgage with 10% of own contribution for 30 years		4,108	3,255	3,812	3,106	2,876	2,298
Difference	Private landlord market	1,098	875	1,382	676	886	598
	BTR market	728	840	1,372	526	394	588

Source: Knight Frank based on Otodom Analytics, Bankier.pl, December 2023

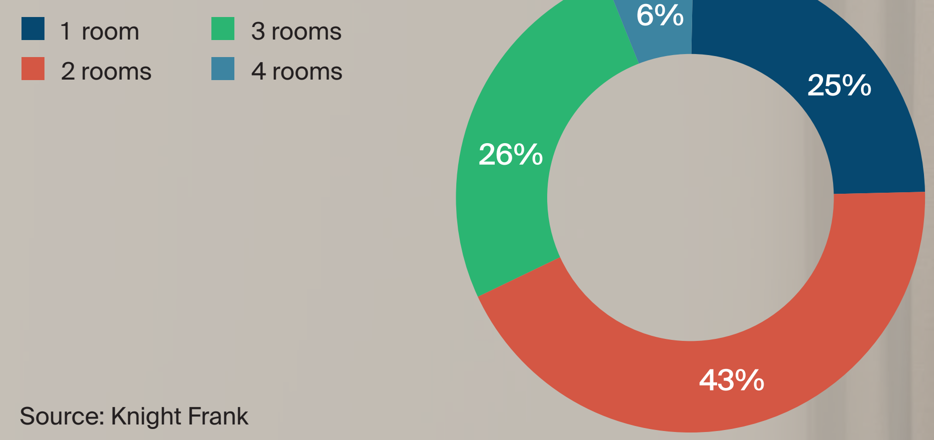
Rental conditions

A demographic and social transition is occurring in Poland, potentially offering opportunities linked to a shifting dynamic between apartment rentals and ownership. There is a trend of decreasing household sizes, and the desire for rental properties is influenced by the availability of suitable locations for young professionals, creating a favourable scenario for renting as opposed to purchasing.

Renting an apartment from institutional investors is perceived as more stable and secure than renting from private individuals. Many entities provide stable lease conditions, tenant-supporting applications, and various amenities. Additionally, insurance tailored specifically for institutional lease agreements, aimed at safeguarding tenants, is also gaining in popularity.

Many projects offer standard amenities such as storage rooms, car parking, 24/7 security, bike parking, air conditioning, and Internet. However, in new projects, additional amenities like residents lounges, terraces, community events, and gyms are increasingly being included to create a competitive advantage over other developments. Furthermore, these amenities provide people with the opportunity to build a community and a more enjoyable living environment.

Chart: **Type of apartment**



Source: Knight Frank

Chart: **Range of apartment sizes**

1-ROOM APARTMENT SIZE	2-ROOM APARTMENT SIZE	3-ROOM APARTMENT SIZE	4-ROOM APARTMENT SIZE
18 - 45 SQ M	28 - 69 SQ M	40 - 90 SQ M	56 - 126 SQ M

Source: AFI Europe

AVERAGE RENTAL RATES

RENTAL RATES (PER MONTH)

1-ROOM APARTMENTS	2-ROOM APARTMENTS	3-ROOM APARTMENTS
Warsaw: **3,380 PLN** Regional cities: **2,250 PLN**	Warsaw: **4,040 PLN** Regional cities: **3,000 PLN**	Warsaw: **5,230 PLN** Regional cities: **4,020 PLN**

OTHER PAYMENTS

SERVICE CHARGE (/SQ M/MONTH)	PARKING SPACE (/SPACE/MONTH)	STORAGE ROOM (/UNIT/MONTH)
8-12 PLN	Warsaw: **250-350 PLN** Regional cities: **200-300 PLN**	Warsaw: **200-300 PLN** Regional cities: **100-250 PLN**

BTR AMENITIES

	Resi4Rent	Vantage Rent	Life Spot	FMnW	Vonder	Home by Zeitgest	Share Home Silesia	Left	AFI Home	Urban Home	LivUp	Heimstaden	Van Der Vorm Living	Habitu	Noli
Storage	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Security 24/7	●		●		●				●	●	●		●		
Car parking	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Bike parking	●	●	●	●	●			●	●	●	●	●	●	●	●
Co-working	●				●			●	●	●	●				●
Resident's lounge					●				●		●				●
Conference room					●										●
Cafe					●				●	●	●			●	
Air conditioning	●	●			●		●	●	●	●	●		●	●	●
TV							●	●	●		●		●		●
Furnished	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Internet	●		●		●		●	●	●	●	●	●	●	●	●
Gym					●				●		●				●
Communal kitchens					●										●
Terrace	●		●		●			●	●	●			●		●
Community events	●	●	●		●			●		●	●		●		●
Movie and game rooms					●				●		●				●
Application	●		●		●				●		●			●	

AVAILABILITY OF BTR APARTMENTS

The vacancy rate in BTR apartments in Poland remains minimal and in line with standard operating voids.

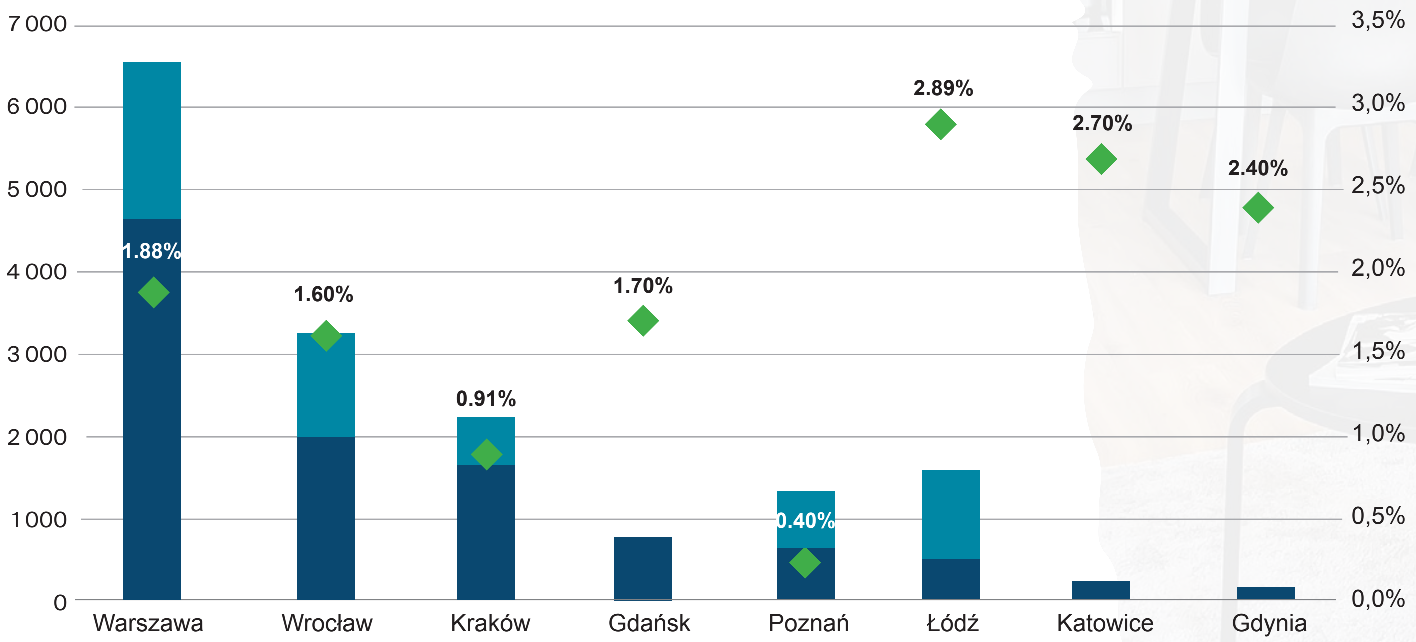
In stabilized projects, that have been operating in the market for at least 12 months, the average vacancy rate across Poland at the end of 2023 was estimated at 1.6%. The lowest vacancy rate in stabilized projects was observed in Poznań (0.7%), while the highest was noted in Łódź (2.9%). In Warsaw, which is the largest BTR market in Poland, the vacancy rate remains low at 1.9%.

The delivery of a large number of new units to the market could lead to temporary increases in vacancy rates, particularly in smaller markets. An example of this is Krakow, where during 2023 the stock increased by 35% compared to 2022, leading to an increase in vacancy rate (total) to 5.4% from the 1.7% recorded year before.

The average vacancy rate for the total existing BTR stock across Poland at the end of 2023 was 3.5%, showing a decrease from the 3.8% recorded in the previous quarter.

Importantly, the sector is generally marked by a swift commercialization pace, with the majority of apartments often being rented before a project is even completed.

Chart: **Stock & vacancy rate**



Source: Knight Frank

TRENDS

The BTR sector in Poland demonstrates strong fundamentals for further growth and presents an opportunity to restore balance to an increasingly challenged residential sector.

BTR offer proves to be competitve against private rental market. Additional amenities, secure and standard lease agreements as well as insurance coverage are among biggest advantages of BTR sector.

As a result of stable demand, the sector is generally characterized by a rapid pace of commercialization, with the majority of apartments often already being rented before project completion.

The BTR sector in Poland has experienced significant growth in recent years, with the existing stock of rental properties increasing by around 60% within the last year. This trend is expected to continue in the future as the evolving real estate market and current socio-economic climate present new opportunities for expansion.

Location is key in the BTR sector, and the most favoured schemes are those near underground stations and on tram and train routes. Proximity to rail infrastructure makes a significant difference.

Source: LivUp

02. BTR SECTOR – BUSINESS ENVIRONMENT

Business environment

In 2023, the housing market experienced a significant recovery after a difficult 2022 marked by high inflation, a consistently elevated reference interest rate, and tightened credit conditions (the amendment to Recommendation S raised the interest rate buffer in 2022 to 5.0 percentage points). These factors notably subdued demand for purchasing residential apartments in 2022. However, since the beginning of 2023, there has been a revival in the residential market, with increased activity and interest from buyers. This resurgence is reflected in improved sales results in the housing market.

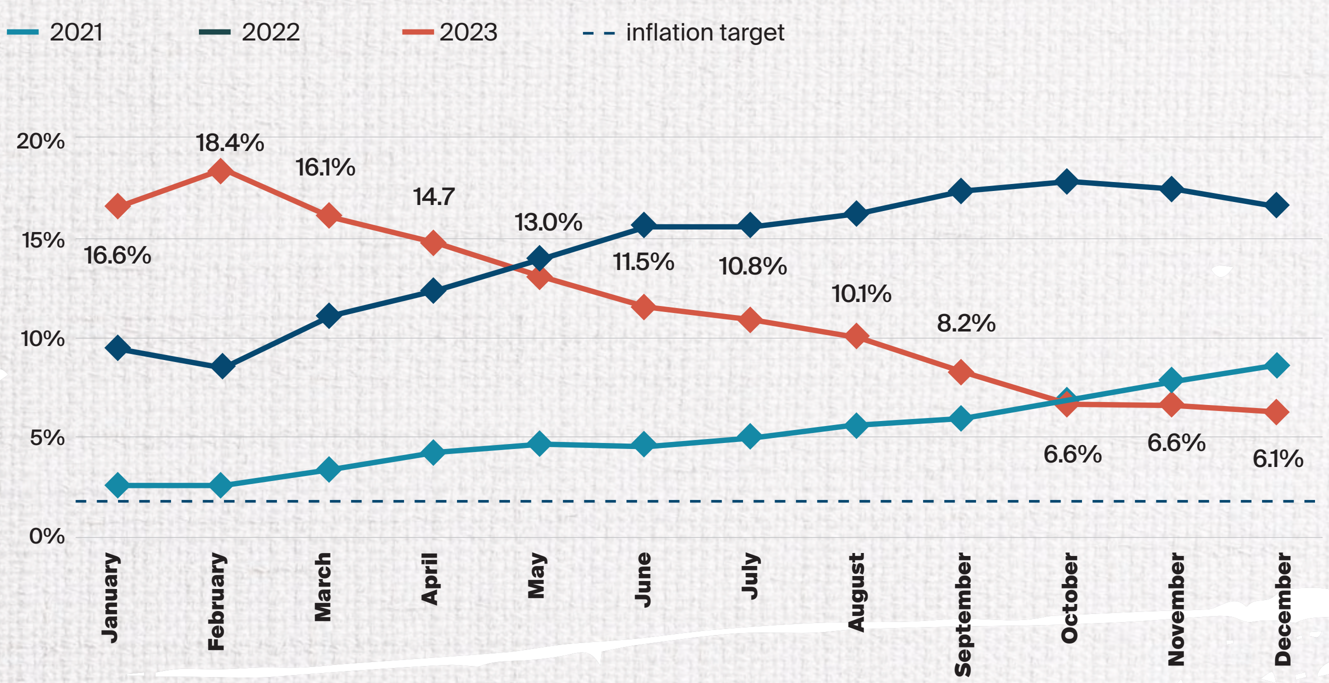
Consequently, residential land prices remain high. Thus, a potential solution for advancing the BTR market further could involve focusing on projects on commercial land, which tend to be more accessible and cost-effective.

Inflation and interest rates

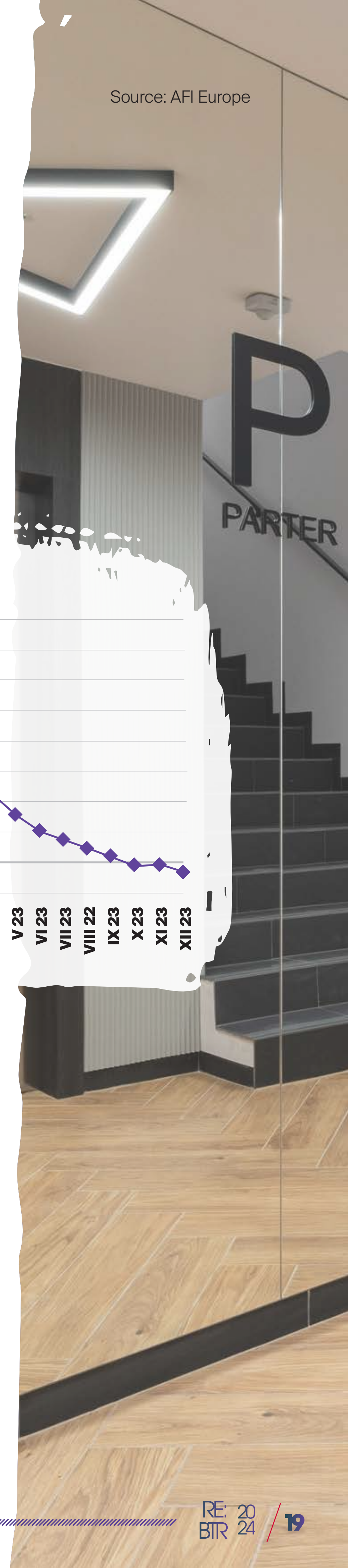
Following two consecutive years of increase, inflation reached its peak in February 2023, hitting 18.4%. Since then, the indicator has steadily declined month by month. The reduction in inflation has been influenced by a decrease in the growth rate of prices due to the base effect (prices had risen sharply since March 2022, following the outbreak of the war in Ukraine), as well as the decline in energy commodity prices in recent months. According to preliminary data from Statistics Poland estimates, inflation fell to 6.1% year-on-year in December 2023 from 6.6% in November 2023. However, the European Commission forecasts an annual inflation rate of 5.2% in 2024.

After maintaining interest rates unchanged for an extended period, the National Bank of Poland's Monetary Policy Council opted to lower rates by 75 basis points at their August 2023 meeting. A further rate cut occurred in October, resulting in the current reference interest rate of 5.75%. This may result in a decrease in WIBOR as financial institutions adjust their lending rates to reflect the lower cost of funds. Additionally, the impact on purchasing power parity (PPP) for mortgages is noteworthy. The lowering of interest rates lead to a reduction in mortgage rates, enhancing the affordability of housing for individuals.

Chart: **Inflation CPI in Poland, y-y**



Source: Knight Frank based on Statistic Poland



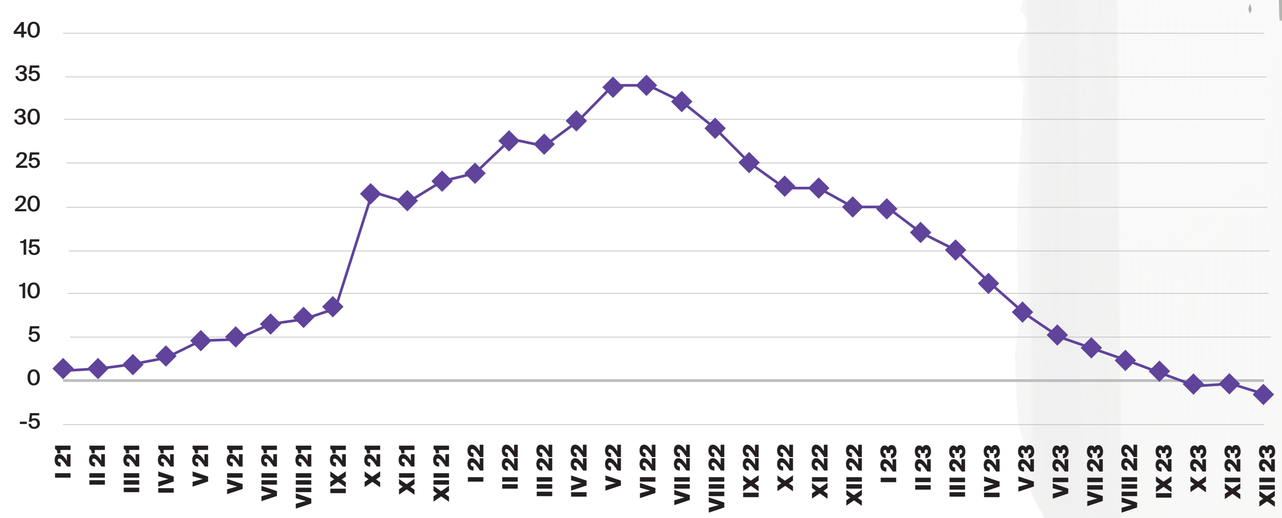
Source: AFI Europe

Construction costs

The high inflation rate presents challenges in accurately estimating project construction costs and securing financing over an extended period, thus impacting the ability to optimize return on investment. Consequently, there is a growing trend of considering indexation clauses within investment contracts, as developers seek to protect themselves from the increasing construction costs. According to the PBS Handel S.A. Group, from January to December 2023 compared to 2022, construction material costs saw a positive 4% dynamic.

Construction companies continue to grapple with issues related to the exodus of workers to Ukraine, and they will also face the impact of a rise in the national minimum wage. The costs of construction are further kept at elevated levels due to the prices of fuel and energy, expenses that show relative resistance to decreasing demand.

Chart: **Average dynamics of construction material costs (y-o-y) (%)**



Source: Knight Frank based on PBS Handel S.A. Group

Foreign exchange risk

BTR investors in Poland encounter a significant challenge due to the majority of residential unit rents being denominated in PLN, exposing them to foreign exchange risk. This creates potential downsides such as diminished revenue prospects for foreign investors and heightened investment financing costs. A potential solution involves adopting rental payments in EUR by BTR tenants, leveraging the successful use of EUR as a settlement currency in commercial space leases (office, warehouse, and retail). Current legal conditions suggest the feasibility of introducing EUR-denominated rent payments for BTR facilities. Existing laws, including the Law on the Protection of Tenants' Rights, do not explicitly prohibit tenants from making rent payments in foreign currency. From the BTR investor's perspective, this approach holds particular appeal in terms of accessing more cost-effective financing in EUR and substantially mitigating investor risk costs.

03. RESIDENTIAL VS COMMERCIAL ZONING

Properties designated for rental are currently being built in Poland in both residential and commercial areas. A key condition for commercial zoning is that the local development plan allows for collective temporary residence functions within the commercial area, such as hotels, hostels, or Purpose Built Student Housing (PBSA). It's important to note that while this practice is not widespread, it stems from an absence of appropriate uniform and clear regulations.

Typically, BTR properties are developed in residential areas. Meanwhile, other investments linked to residential functions, such as PBSA, co-living spaces, or care homes, are implemented in commercial areas. Notably, the available land designated for multi-family residential investments in local development plans is declining annually. As a result, investors are turning their attention to commercial zoning.

Considering this, there are several commercial factors to take into account when evaluating the land's function:

Source: LivUp

ACCESSIBILITY AND LOCATION OF LAND

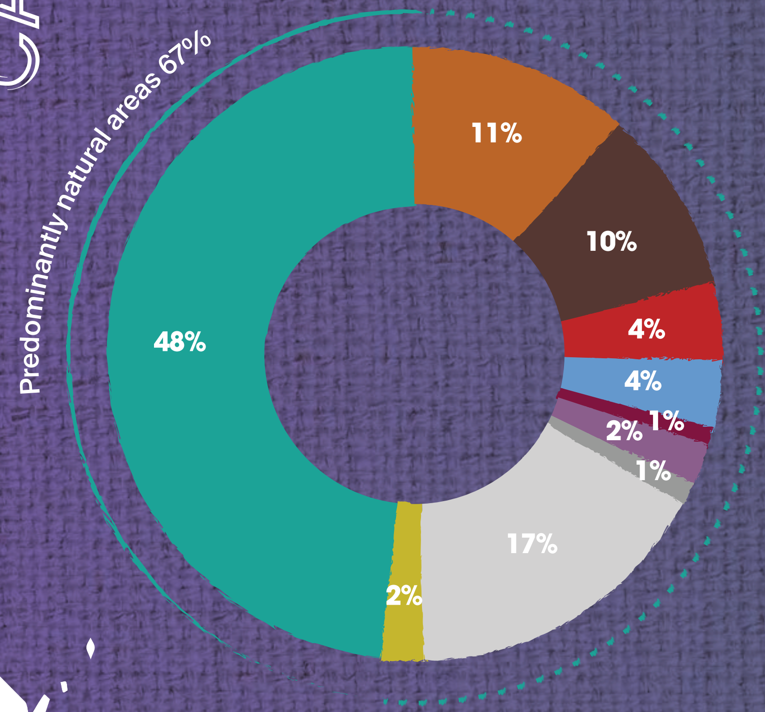
Competition for investment areas persists, and the scarcity of appealing assets is increasingly challenging, impacting all major cities in Poland. Access to land allocated for investments has been a long-standing issue. There is a considerable excess of demand for land in Poland compared to supply. Developers and investors are on the lookout for areas suitable for residential, warehouse, and office investments. Notably, the residential sector is experiencing the most significant upsurge in interest, partly due to a 1.5 million shortfall of residential units in the six largest cities.

CASE STUDY

WARSAW

- The western side (left bank) of the city is significantly more urbanized.
- Central districts encompass a higher concentration of service areas.
- Various areas within the city are currently undergoing or may undergo changes in land use in the future, such as former railway or industrial areas.

Chart: **Distribution of land use types within the city's total area**



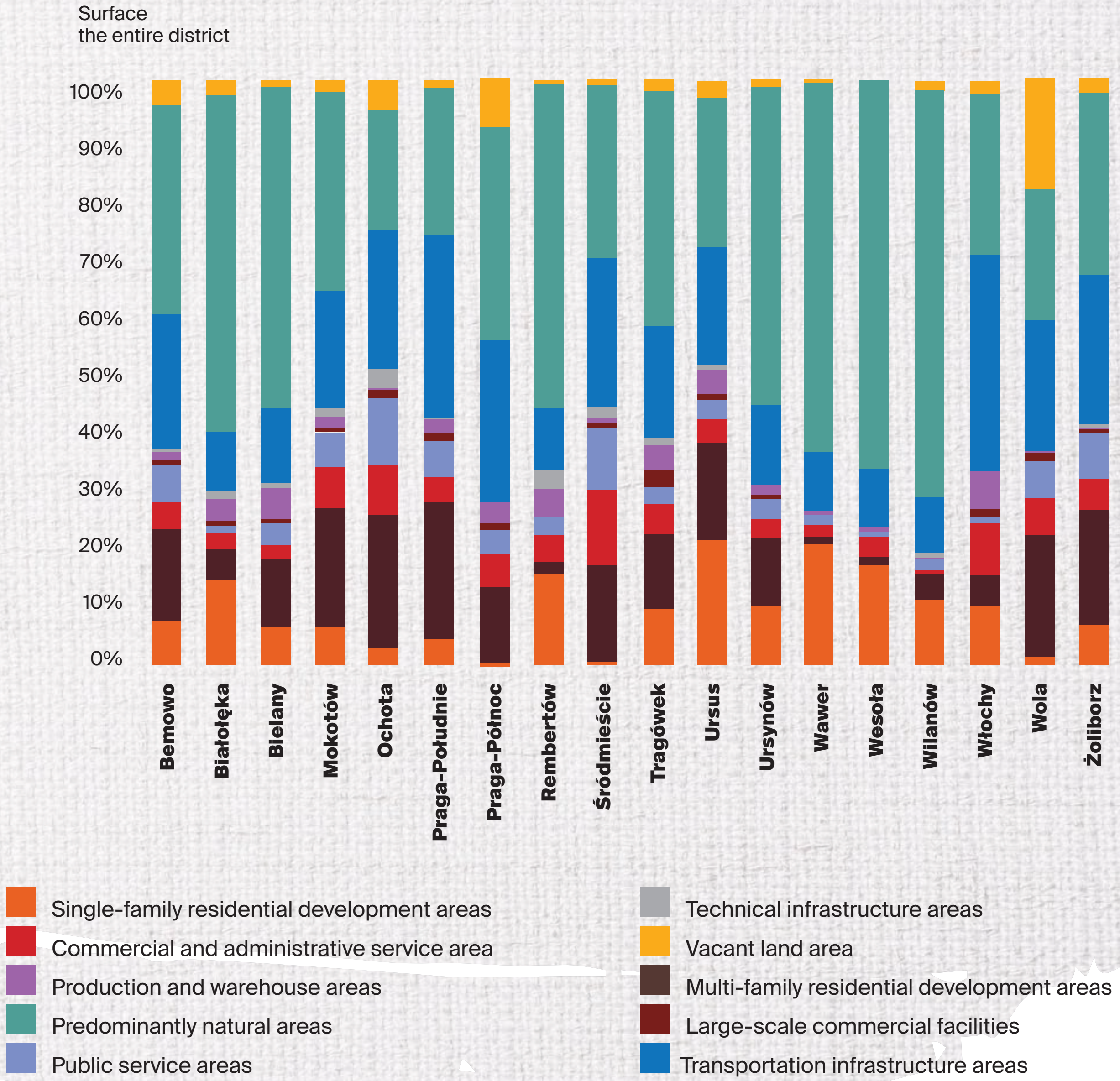
SOURCE:
Original work of the Urban Planning and Development Strategy Studio based on the land use map maintained by the Department of Spatial Policy of the Office of Architecture and Spatial Planning of the Capital City of Warsaw

Chart: **Distribution of areas with various functions**

SOURCE:
Original work of the Urban Planning and Development Strategy Studio based on the land use map maintained by the Department of Spatial Policy of the Office of Architecture and Spatial Planning of the Capital City of Warsaw.

The chart presents the distribution of areas with their different functions across all Warsaw districts, offering insights into the spatial characteristics of each district. Significant variations are apparent in the proportion of built-up service areas, which are notably more prevalent in central districts. The outlying districts distinguish themselves within the city with a notable abundance of green areas and single-family residential developments. Moreover, the Wola district features extensive vacant land areas, poised for future development changes.

Chart: **The share of functions by district**



SOURCE:
Original work of the Urban Planning and Development Strategy Studio based on the land use map maintained by the Department of Spatial Policy of the Office of Architecture and Spatial Planning of the Capital City of Warsaw.

Source: LivUp

2 LAND PRICES

The diminishing availability of land in city centres and other sought-after locations has led to a surge in land prices in these highly desirable areas. Cumbersome administrative procedures and evolving regulations have prolonged the time required to introduce new investments for sale and their execution. Over the next 1-2 years, a rise in land prices, particularly for residential development, is expected. This projection is substantiated by the constrained availability of such land against escalating demand.

In the first half of 2023, elevated prices for development land persisted in the largest cities. Despite a previous period of slowed growth, the price of land per square meter of usable apartment area in the six largest cities began to climb more rapidly. Consequently, the proportion of land cost in the overall cost of apartment construction increased by several percentage points, ranging from 14% to 24%.

In large Polish cities, attractive plots for commercial development are more easily found than residential ones. As noted earlier, residential plots are in short supply, making the purchase price of a commercial plot markedly more favourable than that of a residential plot. For instance, in Warsaw, recent land transactions for commercial zoning ranged from PLN 3,000 to 5,000 per net leasable area (NLA), while in similar locations, residential zoning commanded prices between PLN 5,500 and PLN 6,500 per usable area of the apartment (PUM).

3 PARKING REQUIREMENT IMPACT ON CONSTRUCTION COSTS

The requirement for the number and organization of parking spaces is determined by the local spatial development plan (MPZP) or a zoning decision, which is set and modified by local authorities based on specific local considerations. These differences can exist within even a single city. For instance, on Armii Krajowej Street in the Bronowice district of Kraków, the minimum number of parking spaces per apartment in multi-family buildings is 1.2 (without an upper limit), while in the Stradom district, closer to the Old Town, there is a minimum of 0.5 and a maximum of 1 parking space per apartment.

The deregulation law (ustawa deregulacyjna), enacted by the parliament (Sejm) on 14 April 2023, mandates the provision of 1 parking space per apartment in the downtown area and 1.5 parking spaces outside of it, irrespective of apartment size. Thus, adopting the minimum indicator of 1.5 necessitates the construction of approximately 50% more parking spaces. The average cost of constructing one parking space ranges between PLN 70,000 and PLN 100,000, while parking spaces are typically sold for around PLN 35,000-40,000. Consequently, at least PLN 35,000 is added to the price of the apartment to cover the additional cost. This renders the construction of housing estates in accordance with the amended housing law unprofitable and more expensive for individual buyers.

In the case of commercial areas, the parking space ratio is usually more favourable than for residential areas.

Source: LivUp

CASE STUDY

Warsaw - Suwak street

As per the local spatial development plan, the parking space ratio for multi-family residential development is set at a minimum of 1 parking space per residential unit, and at least 1 space per 60 square meters of apartment usable area. For buildings and establishments providing collective housing or tourist services, such as hotels, hostels, guesthouses, school dormitories, student dormitories, worker hotels, and nursing homes, the requirement is a minimum of 10 parking spaces for cars per 1,000 square meters of usable area of the buildings or premises.

Source: Resi4Rent

	Residential	**Commercial**
PUM/GLA	**5,000**	**5,000**
Min requirement	**1 parking space per 60 sq m**	**10 parking spaces per 1,000 sq m**
Min total parking space	**84** (assuming all apartments size 60 sq m) **125** (assuming all apartments size 40 sq m)	**50**

In this exercise, we assumed a potential PUM/GLA of 5,000 sq m. The minimum parking requirement for residential zoning is 1 parking space per 60 sq m of PUM, and for commercial zoning, it's 10 parking spaces per 1,000 sq m of usable area. With this in mind, for residential zoning, if we assume all apartments will be 60 sq m, we would need to build 84 parking spaces. If we assume all apartments will be 40 sq m, then the number of parking spaces will increase to 125. For commercial zoning, we only need to build 50 parking spaces.

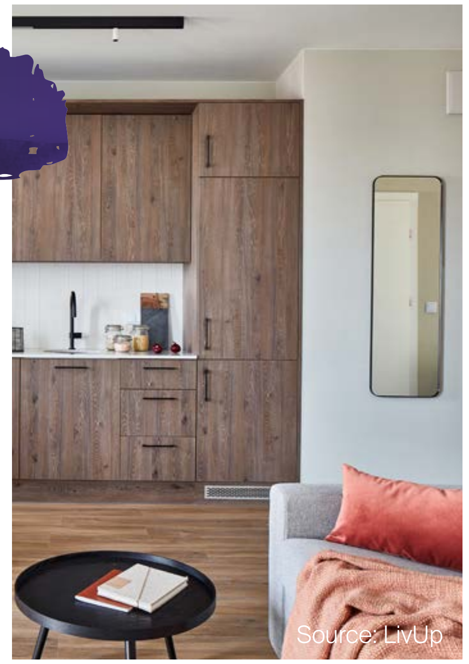
4 EFFICIENCY OF USE OF SPACE

The current Polish legislation stipulates a minimum spatial requirement for residential units, mandating that developers of residential properties intended for sale must ensure a minimum floor space of 25 square meters per unit. However, this restriction does not apply to buildings designated for service use, thereby exempting hotels, student accommodations, and Build-To-Rent projects from this limitation and enabling them to offer for rent / usage smaller, more customized units.

Compact units are particularly advantageous for single tenants, allowing more efficient spatial utilization and catering specifically to the preferences of younger demographics. Furthermore, property owners have the leverage to impose higher rental rates for units (usually ranging from 17-20 square meters), partly offsetting increased costs of construction and furnishing compared to larger units. Noteworthy, the aggregate rental costs for these smaller units remain lower in nominal terms than those for conventional studios exceeding 25 square meters.

A significant consumer demand in smaller studios has been particularly observed in central urban and business districts.

Recent years have witnessed controversy regarding the sale of apartments smaller than 25 square meters, which highlights the issue of inadequate living space. This controversy pertains to the development and sale of units under 25 square meters to individual buyers.



Source: LivUp

SUMMARY

The lack of uniform regulations allows for the implementation of BTR facilities in both residential and service areas. However, investments in residential areas may face restrictions due to land availability and increasing prices. Furthermore, the introduction of parking space requirements and new regulations can notably affect the overall profitability of such investments.

It appears that commercial areas may increasingly appeal to investors, particularly due to the greater availability of land and competitive prices. When deciding whether to construct BTR facilities for residential or commercial purposes, it's important to carefully consider the local conditions and regulations specific to each location.

A notable amendment to the spatial planning and development law has recently been enforced, significantly altering the approach and extent of legal acts implemented by municipalities for future development within their jurisdiction. Despite this, the amendment does not specifically address the construction of BTR. As a result, fundamental legal aspects concerning the implementation of such investments in areas designated for residential and commercial use remain unresolved. Moreover, the potential for issuing zoning decisions will be considerably restricted after 2026.

More information about recent legal and tax developments is included in Sections 07 and 08 of the report.

Source: LivUp

COMMERCIAL FUNCTION - MAIN ASPECTS

- Greater availability of land at attractive prices;
- Centrally located land offers better integration with services, businesses, and urban infrastructure;
- Service areas provide better opportunities for innovative solutions, such as coworking spaces, co-living apartments, and modern architectural concepts, which can attract diverse tenant groups;
- More efficiency of use of space;
- In most cases: possibility to recover VAT incurred on the acquisition of the property (usually 23% VAT applies to acquisition), rental of premises taxed at 8% VAT, tax depreciation of the building/units allowed under certain conditions, higher real estate tax (see tax comments in Section 8).

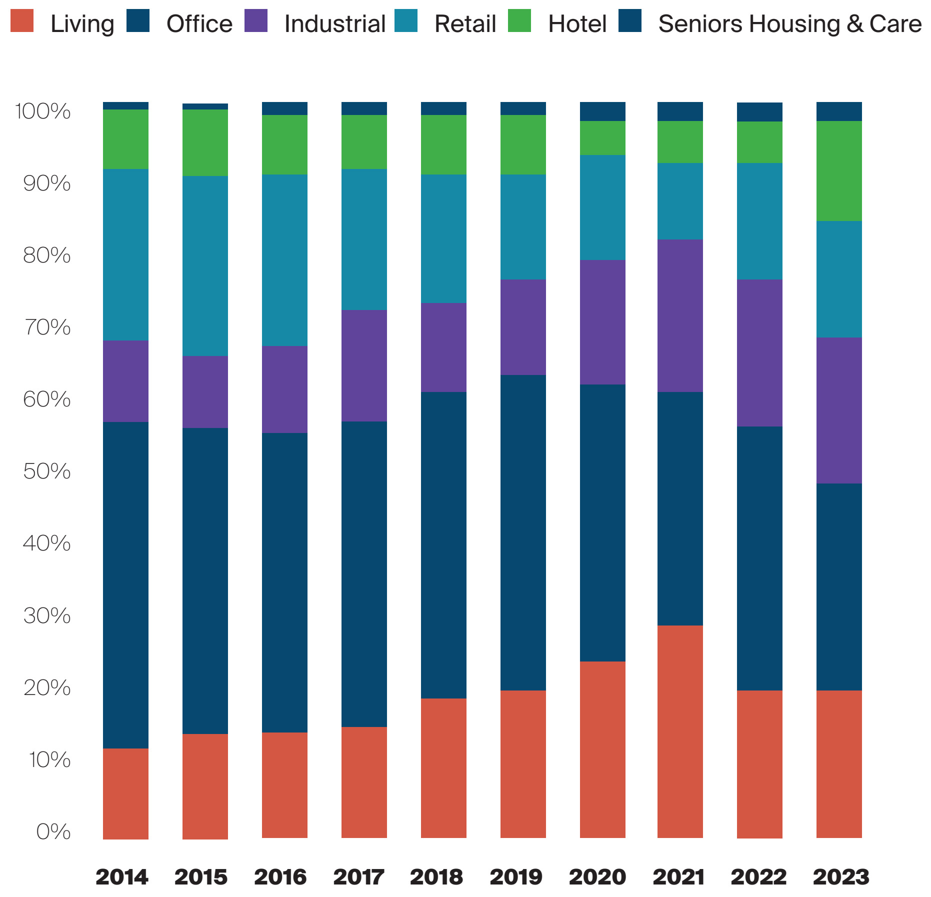
RESIDENTIAL FUNCTION - MAIN ASPECTS

- The option most coveted and deemed secure by institutional investors;
- The most challenging option to obtain, primarily because of intense competition, particularly in urban areas with scarce land resources and high land acquisition expenses;
- Ability to sell units individually;
- In most cases: no possibility to recover VAT incurred on the acquisition of the property (usually 8% VAT applies to acquisition), rental of premises exempt from VAT, tax depreciation of the building/units not allowed, lower real estate tax (see tax comments in Section 8).


Source: AFI Europe

04. INVESTMENT IN THE LIVING SECTOR

Chart: **Living sectors capture a greater share of European CRE investment**
Investment as a proportion of total



Source: Knight Frank Research, RCA

In 2023, both the Living and Industrial sectors in Europe saw substantial investment activity, each capturing a 20% share of the total European commercial real estate (CRE) market. This ties them for the highest market share, with only the Office sector surpassing them at 27%. The data suggests a robust performance and growing interest in investment opportunities within the Living sector across Europe.

As with all other real estate, the higher interest rate and inflationary environment has restricted investment volumes. Some investors, particularly those that require debt funding, have put investment plans on hold. Others, keen to remain active, have looked to reduce or renegotiate offers.

Demand is underpinned by a fundamental undersupply, while the counter cyclical nature of Living Sectors makes them an attractive hold given current uncertainty. This is reflected by the results of our survey of more than 50 investors active in the Living Sectors across Europe. Some 54% said that the current geopolitical and macroeconomic environment had made investing in European Living Sectors more appealing.

EUROPEAN PRIME LIVING YIELD GUIDE
(March 2024)

Yields are provided on a Net Initial Yield (NIY) basis (unless otherwise stated) assuming a rack rented property in capital/gateway cities. As such, these will vary for regional cities.

		SEPTEMBER 2023	OCTOBER 2023	NOVEMBER 2023	DECEMBER 2023	JANUARY 2024	FEBRUARY 2024	MARCH 2024	MARKET SENTIMENT	RENT REGULATIONS
BUILD TO RENT	AUSTRIA	3.90%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	STABLE	Regulated and un-regulated
	FRANCE	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	STABLE	Rent controls in Paris and others (Lille, Lyon, Bordeaux, etc.)
	GERMANY	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	STABLE	Rental indexation (Mietspiegel)
	IRELAND	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%	STABLE	Rent controls in RPZ's
	NETHERLANDS	4.20%	4.20%	4.40%	4.40%	4.40%	4.40%	4.40%	STABLE	Points based indexation
	POLAND	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	STABLE	-
	SPAIN	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	STABLE	Rent caps
	UK	3.75%	3.75%	3.90%	3.90%	3.90%	3.90%	3.90%	STABLE	Some affordability requirement

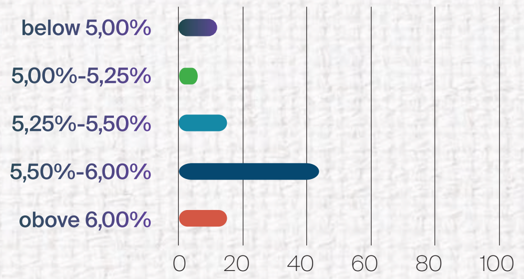
Source: Knight Frank

The capitalization rates for BTR investments in the most popular cities of Western Europe stood at a range of 3.75% - 4.50% in March 2024.

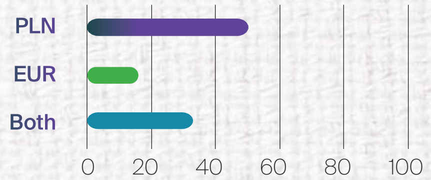
Similar to the broader investment market in Poland, the BTR market has witnessed a considerable slowdown. Only a handful of transactions were conducted using forward structures. One of the most significant transaction in the Living sector was Kajima's acquisition of Griffin Capital Partners' stake in Student Depot.

05. THE BAROMETER OF SENTIMENT

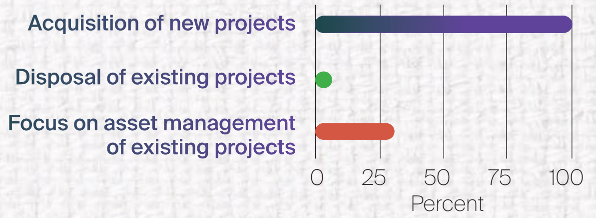
What is in your opinion the prime yield on stabilized BTR asset in Warsaw?



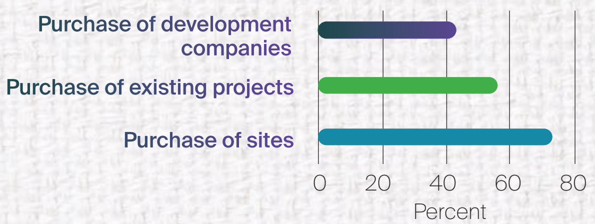
Rents to be charged in PLN or EUR?



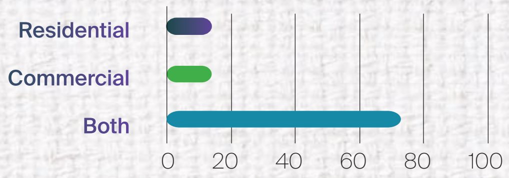
What are your plans for 2024?



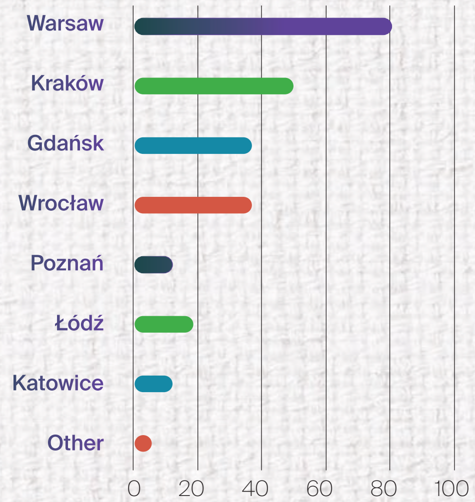
If acquisition of new projects what strategy will you implement?



When analyzing a new BTR project what zoning you consider?

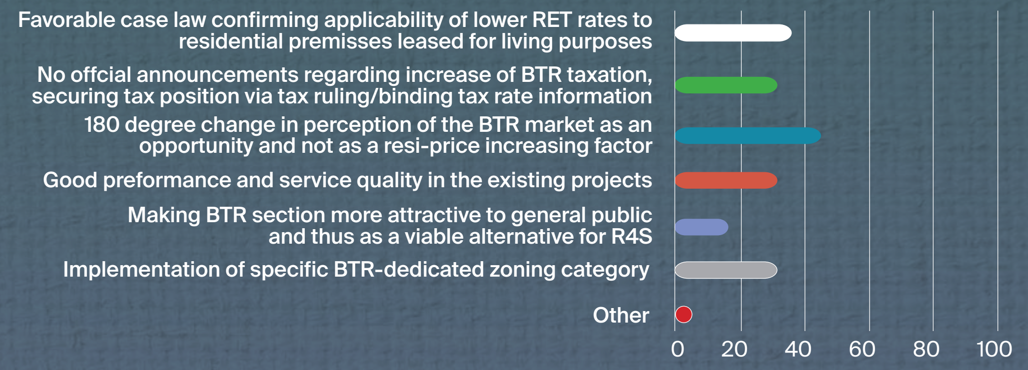


In which cities are you planning to open new Living projects in 2024?

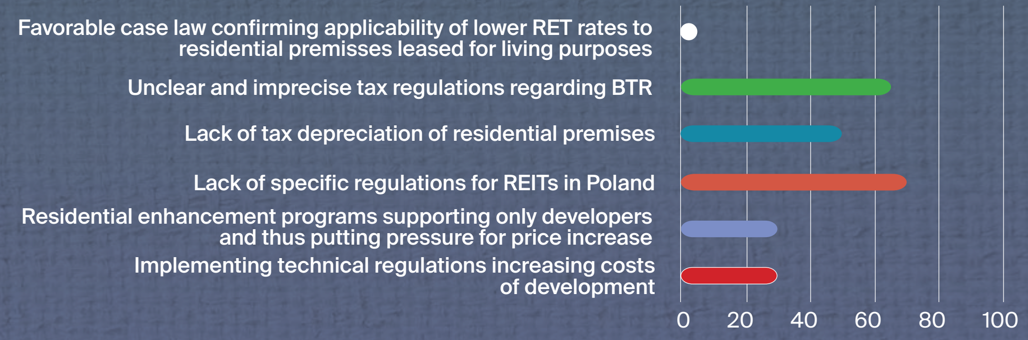


The barometer of sentiment represents the views among the 16 investors active in the sector and was conducted on 31/01/2024.

What do you perceive as an opportunity for the BTR sector in the existing and / or expected legal / tax environment?



What do you perceive as a disadvantage for the BTR sector in the existing and / or expected legal / tax environment?



Which ESG criteria are most important to your company when considering new investments?

What risks did you perceived in the Living sector in the last 12 months?

What risks do you anticipatein the Living sector in 2024?

06. BTR FROM INVESTORS' PERSPECTIVE

The institutional rental market has been developing very dynamically in Poland in recent years. After several years of euphoria and increased purchases, the time has come when projects are slowly transitioning from the construction to the commercialization stage. The market is seeing an increasingly diverse offer. Some investors focus on popular products for a broad audience, including young professionals and students. Others target more affluent clients by diversifying their offerings. Additionally, some investors prioritize amenities like coworking spaces, meeting rooms, and top-notch fitness facilities.

AFI Europe has opted for an expanded offer, meaning the popular product is available in our investments in Warsaw – AFI Home Metro Park in Bielany, Warsaw, AFI Home Osiedle Europejskie, and AFI Home Bagrowa in Krakow. In addition to the popular product, we also offer a product of higher standard for demanding clients, such as AFI Home Złota in Warsaw and AFI Home Dajwór in Krakow. One very important common feature of AFI Home projects is their excellent location. We strive for AFI Home properties to be located in city centers or excellent transportation routes with direct access to the metro or tram. Despite the diversity of standards, we provide high-quality and attractively designed equipment.

Currently, we offer 750 apartments for rent in 5 locations. In 2024, we plan to open additional projects in Warsaw, Krakow, and Wrocław. We aim to complete 1,200 apartments, which will be handed over and then commercialized in the second half of 2024. Our goals for the next 12 months include approaching an offer of around 2,000 apartments. In the following years, we will gradually open additional projects that have already been contracted and are at various stages of implementation, and after completing the currently contracted projects, the number of apartments on offer will increase to over 4,000 units. Apart from Poland, we also offer our services in the Czech, Romanian, Serbian, and Israeli markets.

One of the biggest challenges for the rental housing industry is the decidedly high level of interest rates, which slows down decision-making processes on the part of investors. However, AFI Europe remains open to new investment opportunities, primarily relying on its own capital despite challenging financial conditions.

Another significant challenge I expect will be the declining number of clients from Ukraine. Many are choosing to settle in Poland permanently or buy property here, leading to a decrease in their share in our investments. This trend will likely impact the demand for rental housing in the industry.

Overall, the market assessment, despite challenges, remains very positive. Poland is a strong and attractive job market. The economy continues to develop dynamically, and the geopolitical situation is relatively stable, so I believe in further dynamic market development. The product offered by AFI Home and the community-building among tenants associated with our company fill us with optimism, and we appreciate this asset class in our portfolio, where alongside office buildings, shopping centers, and retail parks, it is an essential element of AFI Europe's balance – 100% owner of the AFI Home platform.

MICHAL STEPIEN
Deputy CEO
AFI Europe Poland

LivUp, a pioneer leader in the Polish institutional rental market, proudly manages over 750 residential units in Warsaw and Krakow. LivUp excels in fostering genuine connections among its tenants. The company is dedicated to provide an unmatched living experience, seamlessly blending contemporary comfort lifestyle, prime locations and exceptional customer service. Since its establishment, LivUp continues to shape the future of Poland's BTR with ambitious plans to expand its ownership to several thousand units across the region.

LivUp huge success can include, among other factors, a high satisfaction rate among tenants living in LivUp – Jagiellońska 36 property. According to a survey conducted in January 2024, the vast majority of residents would recommend renting an apartment from LivUp to their close friends. Among the numerous amenities, the most important ones are: the excellent location of the investment, a safe and stable lease agreement, additional common spaces, events for tenants and the design of the apartments. It is also worth noting the high lease renewal rate: over 75% of the tenants in LivUp – Jagiellońska 36 investment decided to extend their lease. The above is an evidence that the company's values meet the needs of tenants.

The rental market in Poland is undergoing a significant transformation thanks to institutional investors who are setting new standards. Renting is becoming a choice rather than a necessity due to the fact that the advantages and benefits that come with the offerings of BTR operators significantly outweigh renting from a private individual or the immense financial commitment of a mortgage.

In 2023 the supply couldn't keep up with the demand. The biggest issue for institutional investors remains high interest rates, lack of land for residential development, project owners' price expectation and the supply of new projects which is still limited due to the prolongation of the building permits process. Higher volume of institutional BTR transaction will be beneficial in the long term, since a well-balanced institutional BTR market contributes to stability in rental prices, as well as sets professional standards of operations towards the clients.

LivUp remains dedicated in providing an exceptional living experience, leading the way in redefining urban living in Poland. With a solid foundation for future growth, the company not only envisions shaping the BTR market further but also strives to set entirely new benchmarks. Offering tenants not just residences, but living spaces with the finest quality apartments, safe and stable agreements, superb amenities, prime locations, and an unmatched standard of rental living.

LivUp's visionary approach propels it to venture into new properties, with the aim to create a portfolio of several thousands of units in the near future. This expansion not only strengthens LivUp position as a true pioneer within Poland's institutional rental market but reaffirms its commitment to elevating the very concept of contemporary living.

ROEE SHAMIR
Chief Executive Officer
LivUp

07. ZONING CONSIDERATIONS

NEW ZONING REALITY

A new zoning regime is already here. On 24 September 2023 the significant amendment to the Zoning Law has entered into force. Although it does not immediately affect the zoning process and investments, its gravity may not be ignored, especially for new investments planning.

Currently existing zoning studies[1], which formed a basis for local master plans will have to be replaced by the so-called general zoning plans ("**GZP**"). Like the zoning studies, the GZPs will apply to the entire area of a given municipality but, as opposed to the studies, they will have to be much more detailed. There are two mandatory elements of each GZP – zoning categories and local zoning standards.

There are 13 possible zoning categories, sadly none of them dedicated for the specific BTR function. Therefore the distinction between typical residential and services – like BTR investments will remain with us for longer. Of the possible residential zoning categories, we think that only one is suitable for traditional BTR investments (with new "SW" marking) *viz.* the multifunctional planning zone with a multifamily housing development. It is worth stressing that no longer will there be a separate residential planning zone with only a residential function. Residential zoning will be possible only in mixed-function areas.

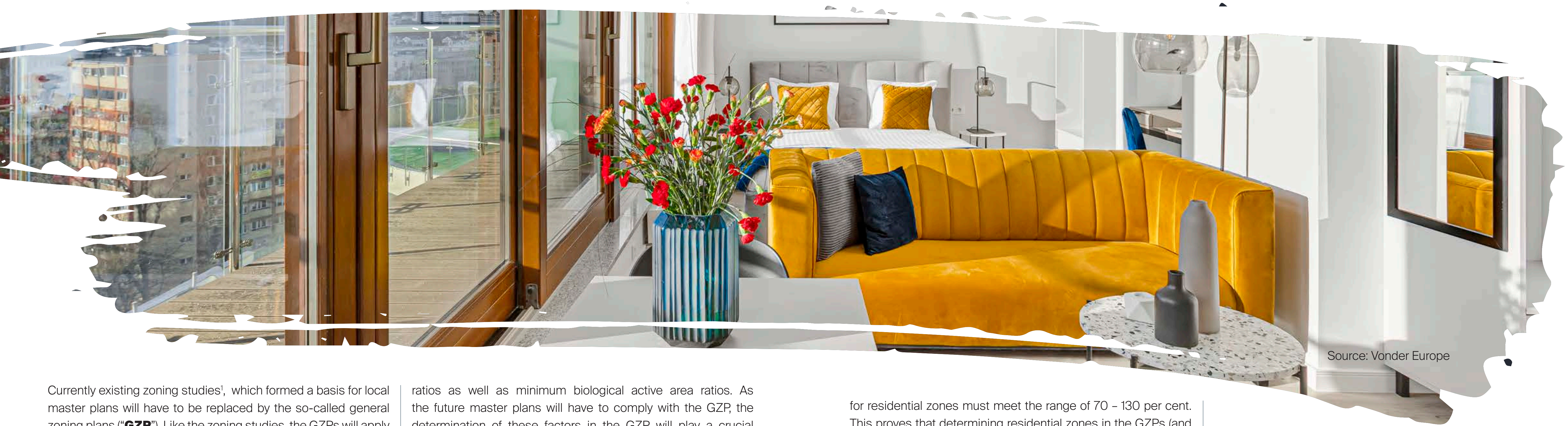
The other mandatory element of the GZP are local zoning standards. These standards determine profiles (basic and additional) of zoning categories admissible in the GZP and, for selected zoning categories, maximum intensity development ratios as well as minimum biological active area ratios. As the future master plans will have to comply with the GZP, the determination of these factors in the GZP will play a crucial role and will determine maximum future possible development parameters.

Optionally, the local zoning standards may introduce requirements regarding the vicinity of planned investments to social infrastructure facilities, such as schools and public greenery. What is most important, if these requirements are introduced, determination of residential development zones in master plans will be possible only if two conditions are jointly met. Firstly, each development plot located in such residential development zone must meet these requirements. Secondly, such social infrastructure facilities (schools, public greenery) must exists as of the date of implementation of the master plan or their development based on a master plan being implemented (or based on any other) must be possible.

When determining residential development zones in the GZPs, local authorities must consider the areas, which in binding master plans have been already designated for residential development. Each GZP will also have to provide for a demand for new residential development in the municipality. Such demand is in turn determined based on a such parameters as a forecast of number of residents in the municipality, usable area of apartments per capita and a forecast of number of residents in the municipality. Based on such calculated demands, local authorities will have to determine an absorption capacity of undeveloped areas (and gaps in existing development), which for residential zones must meet the range of 70 – 130 per cent. This proves that determining residential zones in the GZPs (and consequently, in new master plans) will require meeting many parameters applicable to local determinants.

Once a GZP is implemented, the current zoning studies will automatically expire. The new zoning regulations set a deadline by which GZPs must be implemented. If they are not in place by 31 December 2025, as from 1 January 2026, all existing zoning studies will expire and there will be no possibility to determine the zoning conditions for new investment outside the GZPs (e.g. by obtaining a new, individual zoning decision). Implementation of new zoning regulations will compel investors even more to perform in-depth analysis in terms of their feasibility of BTR development in a given location. When starting to plan a new project, it is crucial to scrutinise the zoning opportunities and limitations related to the land intended for such investment.

Existing master plan will remain in force. As for the pending proceedings concerning the adoption of new master plans, they should be adopted based on previous zoning regulations, provided that the proceeding has been initiated and that (in principle) local authorities applied for the required opinions prior to 24 September 2023. If a master plan were to enter into force after the implementation of the GZP, the former must comply with the latter. Finally, it seems that if there is no GZP in place after 31 December 2025, there will be no possibility for a master plan to enter into force.



Source: Vonder Europe

Disappointingly, new zoning regulations do not provide for a new, separate category of functions dedicated to the Build-To-Rent (BTR) concept. The absence of this category still causes considerable confusion and interpretation doubts. The controversy in this respect is exacerbated by discrepancies in both the regulations and the jurisprudence of administrative courts. Moreover, as the stock of land expressly designated in master plans for housing projects is constantly shrinking, investors' attention is turning to areas with different development purpose allocations, which may not always be legally suitable for BTR investments.

[1] Polish: studia uwarunkowań i kierunków zagospodarowania przestrzennego

What areas are suitable?

The master plan determines the framework of the building's final use. In BTR projects, as a rule, their purpose is to satisfy housing needs. The issue whether a client will use the apartment for a short or long term does not affect the zoning classification of a BTR project. The BTR investment projects should, therefore, in principle, be located on land designated in master plans for multi-family housing, which, under new zoning regulations, will need to be mixed with zones providing for other functions.

Can any residential building become a BTR investment?

In general, the regulations distinguish between residential and non-residential buildings. In the Polish Classification of Types of Constructions (in Polish: *Polska Klasyfikacja Obiektów Budowlanych*, PKOB) ("**Classification**") the "residential" building category includes single-family and multi-family houses, and collective residence buildings (residential houses for elderly people, students and other social groups, boarding houses, school dormitories). Hotels, tourist accommodation buildings and the like belong to the category of "non-residential" buildings.

Buildings are defined differently in another important legal instrument - the Regulation of the Minister of Infrastructure on technical conditions to be met by buildings and their location ("**TC Regulation**"). According to the TC Regulation, collective residence buildings do not belong to residential buildings category but constitute a separate category of buildings intended for <u>temporary</u> stay (e.g., hotel, motel, guesthouse, rest house, excursion house, youth hostel, hostel, boarding house, student housing). There is no doubt that multi-family residential buildings are the essence of BTR investments. Controversies arise, however, when it comes to "collective residence" buildings, which, although recognised as residential buildings in the Classification, are treated differently in the TC Regulation as buildings designated only for temporary stay and allocated to the same category as, for example, hotels. Neither the Classification nor the TC Regulation include "collective residence" buildings in the category of "non-residential" buildings. The distinguishing feature of collective housing is therefore the period of stay, which is not expanded on in the applicable legislation. In other words, there is no clear legal guideline on what "temporary stay" actually means in the context of property development. New planning regulations do not improve this situation.

The Classification and the TC Regulation describe potential BTR buildings in different legal terms and this ambiguity also extends to provisions of particular master plans. This adversely affects areas which are not clearly designated for residential investments (SW), but instead have different land-use designations, allowing for services, non-residential buildings of various types, etc. Master plans may also differ significantly in terms of details, even within one municipality. Each BTR investment should therefore be coupled with a thorough analysis of the applicable regulations on spatial development of the real estate, especially as regards areas that are, in principle, intended for service or service-like purposes.

The amendment to the TC Regulation, which will enter into force on 1 August 2024, does not eliminate the confusion in the current terminology. These changes however provide for some technical solutions, which were aimed at limiting aggressive residential development lowering the standards of new apartments.

Source: Vonder Europe

What differentiates the BTR residential- and service- zoning-based investments

In terms of zoning, the difference seems to be obvious. BTR investments based on service zoning are not designated to satisfy long-term residential needs but to provide short-term stay facilities, much more resembling hotels, student accommodation or guesthouse. The zoning for a typical residential BTR investment is much more complex as it requires access to social infrastructure facilities such as schools and greenery areas. In times when master plans are scarce and the residential zoning would have to be secured by zoning decision, such social infrastructure facilities must already exist. Consequently, releasing new areas for residential development would require much deeper involvement and initiative of local authorities. Otherwise, zoning limits for these area will only impact the housing prices, which will make them even less accessible for the majority of population.

As regards technical parameters, service investments look much more development – friendly in terms of minimum units' area, the number of parking spaces and access to public infrastructure. These factors will inevitably impact the attractiveness of BTR investments based on service zoning. In the short term perspective they seem less costly to be implemented, therefore more accessible to potential occupiers.

Does the lack of a master plan preclude BTR investments?

So far, the absence of appropriate land-use designations in the master plan did not prevent investors from developing BTR projects, who may, provided that various requirements are met, obtain decisions on zoning conditions ("**Zoning Decision**"). However, the possibility for issuing Zoning Decisions under the new zoning regulations has been significantly limited. An investor will be entitled to obtain a Zoning Decision only if the binding GZP determines the supplemental development areas. It will not be possible to obtain a Zoning Decision if there is no binding GZP, or even if the GZP is in force, but it does not provide for supplementary development areas (which is an optional element of the GZP).

As regards Zoning Decisions for residential investment, it will be possible to obtain them only for the areas located within supplementary development areas (as determined by the GZP) and only for plots, which meet the local zoning standards' requirements in terms of vicinity to the social infrastructure facilities already existing as of the date of a Zoning Decision being issued. All new Zoning Decisions, which will become final and binding after 31 December 2025, will have five years' validity period.

These new requirements will apply to Zoning Decisions, for which an application was submitted after a GZP's entry into force or in any case after 31 December 2025. Zoning Decisions issued before 24 September 2023 will remain in force.

Significant changes have been implemented making an alternative path for residential development available under the Act commonly referred to as 'Lex Developer'. Although currently pending proceedings based on the Lex Developer will be continued, the Act will expire on 1 January 2026, i.e. two years earlier than originally planned.

Lex Developer is intended to be replaced by new possibility provided for in the amended zoning regulations, which is an integrated investment plan. Integrated investment plans are designed as a specific form of a master plan, based on arrangements with a private investor in a civil-law contract. These contracts will specify the conditions for the possible development of a main investment and its connection with mandatory additional, supplemental investment (e.g. public schools, green areas, local roads).

To rent or to buy an apartment? The best solution for the present times

The essence of the BTR concept is to meet housing goals in the long-term perspective. Therefore, in view of the volatile market conditions and sky-rocketing interest rates, residential premises intended for long-term rental have become a very interesting alternative to home ownership. The main arguments for are the lack of long-term financial obligations in the form of a mortgage, and greater mobility and freedom when moving home. A key element for further development of the market is a mental shift occurring in both the generation entering the workplace and the generation that is already firmly established in this market and shapes trends. Stability is no longer viewed as simply living in the same place for years. At the same time, people have not abandoned their dreams of home ownership. The BTR concept can make the dream come true more easily than a long-term mortgage. The BTR market should also factor in the recent influx of refugees from Ukraine. The majority of those currently in Poland have found legal employment and many of them will choose to stay even after the war is over. Numbers are impossible to predict at this stage, but they will doubtless intensify housing demand. The growing importance of institutional renting will certainly significantly change the housing culture in Poland in the years to come.

08. TAX ASPECTS OF PURCHASING RESIDENTIAL REAL ESTATE IN POLAND: Q&A


Source: Vonder Europe

1 What key things should I look out for when investing in residential real estate?

Different tax issues arise depending on the structure adopted (investment through a Polish entity or directly through a foreign entity). They will affect the efficacy of investments and the level of interest from potential future buyers. Smart structuring of investments from the tax perspective at an early stage of planning is an extremely important element in ensuring profitability of the whole venture.

Pay particular attention to:

- optimal structure for the investments and the buyer's tax status
- tax consequences of purchasing real estate in the context of corporate income tax (CIT), VAT and tax on civil law transactions (**TCLT**)
- tax consequences of the buyer obtaining financing
- CIT and VAT taxation of operating activities, as well as the level of burdens with respect to real estate tax (**RET**)
- taxation of distributions within the structure.

It should be noted that certain legal aspects, such as the designation of the land on which the investment is situated or designation of apartments (for housing purposes or e.g. short term accommodation or services) may also impact tax matters pertaining to the investment (see below).

NOTE: In Poland, tax practice regarding the purchase and lease of entire residential or mixed-use buildings is still developing and may be subject to various interpretations. The preparation and planning of investments in this area requires special care and diligence.

2 Any big differences between taxation of Polish and foreign investors?

As a rule – no. Polish and foreign entities may purchase residential real estate in Poland. With respect to CIT, the buyer can be a tax transparent entity or a company subject to taxation with CIT. Even with CIT-exempt investment funds (Polish and foreign), this exemption generally does not include income from lease of real estate.

To date, the most popular form of investing in real estate assets in Poland has been a Polish limited liability company. Recent years have seen a significant increase in the number of transactions in which the buyer is a foreign entity. In terms of taxation, this formula of investment in Poland does not differ significantly from investment through a Polish company, but may slightly simplify flows and reduce obligations regarding, for example, withholding tax.

3 What are the VAT and TCLT consequences of purchasing residential real estate in Poland?

The purchase of developed real estate may:

- be taxed with VAT
- be exempt from VAT or
- be outside the scope of VAT.

In the latter two cases, the purchase of real estate will in principle be subject to 2% TCLT payable by the buyer.

The rules for taxing real estate acquisition depend primarily on the tax status of the real estate itself (e.g. when it was erected, whether it was leased and from when, and the legal classification of the real estate).

If the real estate acquisition transaction is taxed with VAT, it is extremely important to analyse the right to deduct VAT (and the buyer's right to a refund). This depends on the building's intended use.

Example

A building is to be fully used for rental purposes subject to VAT at the rate of 8% or 23%. Here, the buyer should have the full right to deduct VAT.

The VAT Act also provides for correction rules for change of intended use within a certain period of time after acquisition (e.g. from VAT-exempt use to use subject to VAT and *vice versa*).

Example

Part of the building (e.g. 20 separated premises) is to be used for VAT-exempt activities. Here, the buyer will not be entitled to deduct VAT on the purchase price of the premises acquired for the purposes of tax-exempt activity.

The right to deduct and refund VAT in connection with the acquisition of real estate will also depend on the business model.

Example

The buyer will lease the entire apartment building to a company subletting the property. According to the tax authorities' current line of interpretation, the rent obtained by the buyer should be taxed at 23% VAT and, thus, the buyer should have the full right to deduct VAT in connection with the real estate acquisition. However, this business model may result in the subletting company not having the right to deduct the VAT charged on the rent for premises sublet to natural persons with a VAT exemption.

The choice of business model requires a detailed tax and financial analysis to identify flows and potential tax leaks, and to estimate their size over time. Information on the VAT taxation of different types of leases is provided in Q6.

As a side note it should be observed that, as a rule, the above considerations on VAT deduction should not apply to developers acquiring the land, developing residential buildings thereon and then selling the project to the investors as, in most cases, the said sale of the project should be taxed with VAT. Thus, as a rule, the developer should always have the right to deduct VAT in full.

NOTE: The correct tax classification of the subject of the transaction (as an enterprise / organised part of an enterprise or standalone asset) and the application of the correct VAT tax rates, at both the acquisition and operating stages, is extremely important not only due to the impact of VAT on cash flows (including leakages, if any), but also due to the heavy penalties available to the tax authorities for irregularities, including additional VAT liability and penal fiscal liability of management board members.

Moreover, starting from 2024, under the TCLT laws, where a purchaser acquires:

- at least six residential units (e.g. apartments) constituting separate immovable properties in one or more buildings constructed on a single property, taxed with VAT,
- or an interest in such units,
- or has already acquired at least five such units or an interest in them,

the rate of TCLT on the sale agreement with the same purchaser of the sixth and each subsequent unit in that building or buildings, or an interest in such unit, is 6%. That means that, if the respective conditions are met, acquisition of apartments will be taxed with VAT and, at the same time, taxed with 6% TCLT (subject to interim provisions). Therefore, proper structuring of the acquisition at an early stage of the investment should be considered.

Source: Vonder Europe

4 How are expenses relating to the purchase of residential real estate accounted for in respect of CIT purposes?

As a rule, expenses for the purchase of land do not constitute tax-deductible costs. They may be deducted for CIT purposes only upon the sale of land.

On the other hand, as a rule, expenses for the purchase (or development) of a building or premises, which is subject to accounting depreciation and will be used by the buyer for a period longer than one year, may be recognized as tax deductible costs via depreciation write-offs.

Depreciation rates:

- 1.5% per annum for new residential buildings and premises
- 2.5% per annum for new non-residential premises (e.g. service premises)
- higher rate (up to 10%) for buildings and premises used by previous owners for a period of at least 60 months
- 4.5% per annum for structures.

Separate rules may apply to the CIT settlement of premises equipment, which – depending on value and type – may be treated as tax-deductible as a one-off or through tax depreciation (usually at the rate of 20%).

IMPORTANT NOTE: As of 1 January 2022, **residential buildings**, apartments constituting separate properties, cooperative ownership rights to apartments and rights to a single-family house in a housing cooperative (used for business purposes) are not depreciable for Polish income tax purposes (costs of acquisition or development of such facilities are recognised only upon sale).

For buildings and premises other than residential owned by real estate companies (as defined under the Polish CIT rules), tax depreciation write-offs qualified as tax deductible are limited by the amount of depreciation write-offs made for accounting purposes and charged to the entity's financial result in the fiscal year. Nevertheless, based on recent case law, there are arguments to claim that if the property is not subject to the standard accounting depreciation, but is recognized for accounting purposes as a so called investment property (where the value for accounting purposes is revaluated annually to its fair market value), the above limitation should not apply.

5 How to provide the buyer with cash for the purchase of real estate and how to account for financing costs for tax purposes in Poland?

As a rule, the buyer can obtain cash for the acquisition of real estate in the form of a contribution from a shareholder or through debt financing. The following tax issues should be considered:

Cash contributions (including additional payments)	Debt financing
• neutrality in terms of CIT and VAT TCLT paid by the company receiving the contribution at the rate of 0.5% of the contribution's value (except for the *agio* – the surplus of the issue value over nominal value of the new shares)	• limiting the deductibility of interest on financing based on the regulations implementing the ATAD I Directive (30% of tax-EBITDA or PLN 3 million, whichever is higher) • limiting the deductibility of interest on financing based on the provisions implementing the ATAD II Directive (provisions preventing discrepancies in the tax qualification of hybrid structures) • proper assessment of interest payments in the context of withholding tax provisions (including due diligence, determination of the beneficial owner of interest and the potential risk of applying tax anti-abusive clauses), taking into account potential exemptions from this tax or possible lower rates resulting from double tax treaties • in the case of financing obtained from related entities – analysis in terms of transfer pricing regulations (arm's length principle) • TCLT at the rate of 0.5% payable by the borrower (exemptions apply regarding shareholder loans and loans constituting a financial service exempt from VAT, among others)

Source:Vonder Europe

6 How is VAT charged on the lease of real estate?

The lease of real estate by a taxpayer in connection with their business activity is subject to VAT at the rate of 8%, 23% or is exempt from VAT. The rate depends on the purpose of the lease and the use of the rented building or individual premises.

Example

VAT at 23%
lease of a residential property to another taxpayer that subleases that property to individuals

- rental of service premises to another business (B2B)
- renting an apartment for non-residential purposes (e.g. for office purposes)
- rental of garage space

VAT at 8%

- rental of residential premises for the provision of accommodation services

VAT exemption

- rental of real property of residential nature or part of real property, on one's own account, solely for residential (housing) purposes

NOTE: Defining a real property's nature (character) raises questions and controversies in practice. In the past the tax authorities tended to derive the residential character from the construction law, the law specifying the technical conditions to be met by buildings and their location and the law on ownership of premises. If a property meets certain legal conditions specified therein, then the real estate is presumed to be of a residential character. Moreover, also apartments which were assigned with a different status (e.g., commercially, based on the zoning plan) but fully adopted for residential purposes were sometimes considered as being of a residential nature. Nonetheless, the tax practice is not uniform in this respect. For example, the tax authorities also took the view that the lease of commercial units or units in non-residential buildings cannot benefit from the mentioned exemptions (this standpoint may still change in the future). Thus, the above aspect should be thoroughly analysed on a case by case basis.

NOTE: The qualification of services provided as accommodation services (8% VAT) or rental for residential (housing) purposes (VAT-exempt services) is in practice controversial due to the lack of relevant statutory definitions and the limited practice of the tax authorities in this respect. There are no well-established and unambiguous criteria or guidelines developed to allow for a simple distinction between these services. It is usually assumed that an accommodation service is short-term rental of premises for business or leisure purposes. However, if the tenant's intention is to permanently reside in the premises and fulfill their housing needs, then this service should in principle be classified as renting premises for residential (housing) purposes. In practice, the classification / type of the rented property may affect the VAT taxation of lease. The appropriate qualification of the service provided by the landlord is crucial, since – assuming that the purchase of a residential building taxed with VAT – the structure of leases in a building (taxable lease vs. VAT-exempt lease) may directly affect the scope of the buyer's right to deduct VAT or the obligation to make appropriate corrections (the correction period for real estate is 10 years, and for other fixed assets 5 years), as well as, for example, the scope of the right to deduct VAT in connection with the purchase of services related to VAT-exempt activities. It is important to consider possible business models at the investment planning stage, taking into account the impact of adjustments on the rate of return on investment.

7 How is the lease of real estate taxed with CIT?

Rent constitutes the landlord's taxable revenue. The landlord's tax costs may be any expenses related to the business and incurred in order to generate, maintain or secure the source of income, including, for example, depreciation write-offs, financing costs (subject to appropriate restrictions), RET, or general operating costs (such as legal, tax, accounting services, management costs, etc.). The CIT Act contains a list of costs that are not tax deductible (e.g. certain contractual penalties and damages, representation costs), as well as provisions limiting the possibility of including certain expenses as tax deductible costs (e.g. excessive financing costs).

Income from real estate (taxable revenue less tax deductible costs) is subject to CIT at the rate of 19%[1] regardless of whether the landlord is a Polish or foreign entity.

The landlord's activity may also be subject to the tax on revenues from buildings (also known as the minimum CIT levy), which is 0.035% per month (0.42% annually) of the initial value adopted for tax purposes of the taxable building(s) (the basis for calculating the tax is reduced by PLN 10 million). To put it simply, this tax is ultimately imposed on the landlord's activity only in cases where the amount of this tax is higher than the amount of CIT payable under general rules[2].

Moreover, as from 2022 two new taxation concepts have been introduced to the CIT Act: (i) 19% tax on 'shifted profits (which replaced the CIT deductibility limitation with respect to intangible services) and (ii) 10% minimum income tax. Both were also substantially adjusted by the most recent amendment to the CIT Act effective 1 January 2023, which, amongst others, suspended the effect of the minimum income tax until 2024 (i.e. the regulations on minimum tax will not cover income generated in 2022 and 2023).

The tax base for the tax on 'shifted profits' includes the expenditures (e.g. fees for intangible services and financing costs) incurred for the benefit of foreign related party and deducted for CIT purposes in a given tax year, if certain conditions are met. This tax will not apply to fees paid to a related party that is tax resident in an EU/EEA country and conducting "genuine and material economic activity" there.

With respect to the minimum income tax, it is imposed on entities generating a tax loss from operational activity or with a profitability level lower than 2%. The CIT rules specify how to account for the profitability level (certain expenditures and income should be excluded), how to calculate the taxable base and provide for certain exemptions (e.g. the tax does not apply to taxpayers in the first three years of their business activity).

As a side note, the CIT Act defines real estate companies and imposes reporting obligations on them (and some of their shareholders).

8 How is RET charged?

As a rule, land, buildings (parts thereof) and structures are subject to RET. The buyer of real estate (not a private individual) should submit a RET declaration to the competent tax authority in timely fashion and – starting the month after purchasing the real estate – pay tax installments. Installments are payable by the 15th day of each month, and for January – by January 31.

RET rates are established in the form of a resolution of the municipal council and set within statutory brackets. If the purchased real estate is to be used as part of the buyer's business (renting buildings or separate premises), the maximum tax rates for 2023 are as follows:

- land: PLN 1.34 per m^2
- residential buildings or parts there of: PLN 1.15 per m^2 of usable area (calculated in accordance with the provisions on RET)
- buildings or parts thereof related to business activities and residential buildings or parts thereof occupied for business activities: PLN 33.10 per m^2 of usable area (calculated in accordance with the provisions on RET)
- structures: 2% of their initial value adopted for CIT purposes.

[1] Taxpayers who meet certain criteria (including, income-related criteria) may settle CIT at the rate of 9%.
[2] The amount of the minimum CIT not deducted from the tax paid on general principles is refundable at the taxpayer's request, if the tax authority does not find any irregularities in the tax liability or tax loss in the submitted tax return and the minimum tax, in particular, if the costs of debt financing incurred in connection with the purchase or construction of the building, as well as other revenues and costs, were determined on an arm's length basis.

Based on the latest case law there are arguments to claim that residential buildings or apartments leased by an investor to individuals solely for housing purposes should be taxed with the reduced RET rate (i.e. maximum tax rate of PLN 1.15 per m^2 instead of PLN 33.10).

The property tax paid constitutes a CIT deductible cost.

9 What are the tax consequences of selling real estate in Poland?

Asset deal	Share deal
• CIT: As a rule, sale of real estate located in Poland is subject to CIT on general principles. 19% CIT is charged on the income from sale of real estate (difference between the sale price and the net tax book value of the real estate). • VAT/TCLT: Sale of real estate is taxed as per Q3 above.	• CIT: Sale of shares in a Polish company by a foreign shareholder is not subject to taxation in Poland, unless the relevant double tax treaty contains the so-called real estate clause – then the profits from the sale of shares (stocks) will be taxed with CIT at 19% in Poland. • In the case of (direct or indirect) sale by a foreign shareholder of at least 5% of shares (stocks) in a Polish real estate company (as defined in the CIT Act), the obligation to pay a CIT advance on the capital gains may be imposed on this Polish real estate company (acting as a tax remitter – the seller of shares (stocks) should provide such company with funds to pay this tax advance). However, this obligation arises only if the double tax treaty includes a real estate clause. • TCLT: As a rule, sale of shares in a Polish company is subject to 1% TCLT payable by the buyer.


Source:Vonder Europe

10 What are the differences between a situation where the investment is located on land designated for housing purposes or on a land designated for commercial purposes?

The main difference boils down to the legal qualification of the building or its part (as the one of a residential nature or not) developed thereon. That impacts the VAT consequences of the lease of apartments / the building (or its part) which, in turn, impacts also the right to deduct VAT upon acquisition of the investment.

Namely, if the apartments / building or its part at hand (i) could be classified as "property of a residential character" within the applicable laws and (ii) they will be rented out solely for housing purposes, then the lease rent should be exempt from VAT. Thus, the right to deduct VAT will be limited (see Q3 and Q6 above).

However, if the apartments / building or its part should not be classified as "property of a residential character", then most likely the lease rent should be taxed with VAT (8% or 23%, depending on the nature of the lease) and the investor who acquired the project should be entitled to deduct VAT upon such acquisition under general rules.

Also, as a rule, assuming the favorable position presented in the case law (see Q8 above), buildings or their parts classified as other than residential should be subject to increased RET rates (as of the date of this Report, PLN 33.10 per m^2) compared to residential buildings used for residential purposes (PLN 1.15 per m^2).

11 What kind of changes are planned in the tax legislation concerning residential property investors?

As of the date of this Report, officially no changes are in the pipeline and no new (or draft) tax legislation (or bill guidelines) in this respect have been published. In early April 2024, however, the Ministry of Development and Technology presented preliminary assumptions for law introducing real estate rental investment companies in Poland. According to the presented assumptions, the Polish REIT would be a company listed on Warsaw Stock Exchange with a minimum share capital of PLN 100 million, earning at least 90% of its revenue from the rental or sale of real estate or the sale of shares in subsidiaries investing into real estate; Polish REITs would be obliged to distribute annually at least 90% of their profits. According to the assumption, Polish REITs income would enjoy preferential taxation at a 10% CIT payable only upon dividend payments (with no actual WHT taxation of the shareholders). Given the early stage of work on the REIT system, it can be expected that the changes will not be introduced from 2025 and the main assumption may still change significantly.


Source: Vonder Europe

09. RESIDENTIAL RENTAL AGREEMENTS

For a number of years, investors raised concerns as regards the stability of rental agreements on the Polish housing market. Lack of appropriate legal regulations posed significant risks for the landlord if the tenant falls behind on rent and does not want to move out voluntarily. It may take several months to complete the standard eviction procedure, which includes getting a court judgment and involving a court enforcement officer. There is a loss of expected rental income, extra cost and hassle and the prospect of further legal wrangling to recover arrears etc.

SIMPLIFIED EVICTION MEASURES

The concept of institutional renting offers solutions that afford investors greater security. The two essentials of institutional renting are (i) a fixed term rental agreement, and (ii) the tenant having to produce a notarial deed that enables a quick eviction.

NEW OBLIGATIONS

PRS operators have to comply with environmental-friendly requirements, which affect the commercialization of the project. EU regulations require landlords to provide tenants with an energy performance certificate for their particular individual apartment. Failure to do so will attract a fine. Leasing offers and advertising materials also need to contain information on annual demand for energy consumption for the apartment (incl. renewable energy used) as well as carbon dioxide emissions.

OTHER SECURITY MEASURES

The standard security measure for claims pursued on the basis of the rental agreement is a deposit in the amount of one-month's (or several months') rent. The deposit is paid to the landlord's bank account and returned after the rental term has lapsed, the condition of the premises after its return has been verified and the costs of any repairs have been settled.

Source: Vonder Europe

This table presents the characteristics of residential rental agreements available in the Polish legal system:

	Rental / accommodation services agreements	Rental agreement for properties in the community housing stock	Institutional rental agreement	B2B lease agreement
PURPOSE	**temporary accommodation**	**meeting the housing needs of a self-government community**	**meeting housing needs**	**running a business**
TENANT AND LANDLORD	• **tenant:** natural / legal person • **landlord:** entrepreneur	• **tenant:** a person with low-income household • **landlord:** self-government community	• **tenant:** natural person • **landlord:** only a natural person, legal person or an organizational unit that is not a legal person, running a premises rental business	• **tenant:** entrepreneur • **landlord:** entrepreneur
TERM	fixed term (short term of the agreement)	only non-fixed term (unless the tenant requests a fixed-term agreement)	fixed term	fixed term
NOTICE PERIOD	short notice period to emphasize the agreement's temporary nature	statutory notice period	statutory notice period; the parties may set the notice period in relation to additional grounds for termination agreed by the parties in the agreement	the parties may agree the notice period in the agreement
TENANT'S FEES	• basic remuneration including service charges • weekly payments • fees for additional services	the rent amount for renting residential premises is regulated by the statute; additional fees for the use of the premises	rent and fees independent of the owner, unless the institutional rental agreement provides otherwise	• monthly rent • monthly advances towards service charges • utility charges
SECURITY FOR PERFORMANCE OF TENANT'S OBLIGATIONS	• cash deposit • retention of funds on the client's card • declaration on voluntary submission to enforcement	optional cash deposit, statutory deposit cap	• optional cash deposit, statutory deposit cap • declaration on voluntary submission to enforcement and the obligation to vacate and hand over the premises must be attached to the agreement	• bank guarantee • cash deposit • barent company's guarantee / surety • declaration on voluntary submission to enforcement

10. TRANSACTIONS ON THE BTR MARKET

The main feature of transactions on the BTR market is the need for the investor's very close cooperation not only with the legal team, but above all with technical and commercial advisors, specialists in the implementation of fit-out works, and tax advisors. This is because the BTR market still focuses on forward transactions consisting in a commitment to acquire a residential project executed by the developer, financed by the investor at the initial stage and during the project implementation or on completed asset deals. So far, no platform operating on the Polish BTR market was traded.

INITIAL STAGE – DEFINING THE TRANSACTION'S SUBJECT

The BTR investments focusing on projects that are yet to be built, have as their subject an architectural concept for the implementation of a residential design. In situations where this concept has been approved by the building permit, the investor theoretically gains time and at the same time reduces risks related to the completion of the administrative approval process. The permitting process is time-consuming and burdened with the risk of objections and neighbours' protests, so having a building permit in place is perceived as a great advantage (and in most cases, considered a required condition to the transaction). On the other hand, an already approved design rarely gains the investor's full approval, as the investor would usually like to optimize and adapt it to its business model. The scope of these changes may be insignificant, however, when the investor requires further modifications to the design requiring changes to the building permit, all risks related to the administrative construction process and possible delays in project implementation must be considered. Determining the correct target concept of the BTR project is therefore crucial in properly defining the subject of the transaction. Transaction documentation, prepared with the participation of legal and technical advisors, must indicate precisely the concept being implemented or at least set out transparent rules concerning its negotiations and approval (and contractual consequences of no approval). As an alternative, existing objects (e.g. obsolete offices) may be converted for future renting, which in turn may involve a specific permit to change the building's designation. Such permit is obtained in a process similar to the building permit procedure and must comply with the applicable zoning requirements.

Source: Vonder Europe

FINANCING AND MONITORING OF INVESTMENTS

As project financing is usually provided by the investor, the relationship between the investor and the developer are similar to the relationship between the developer and the financing bank. The investor will typically expect a similar scope of security as the financing bank in respect of the funds invested in the project. In addition to the obvious requirement that there are no risks related to the legal title to the real estate, there is also a need to provide the investor with an opportunity to secure its claims on the investor's property by establishing an appropriate mortgage. As the value of such security usually does not correspond to the amount of the invested funds (the property 'gains' value as the investment is completed), additional securities are necessary in the form of guarantees or sureties from the developer's affiliates with appropriate financial capacity. Also, at the stage of project implementation, the investor–like the financing bank–must have control of the construction process through a technical expert appointed by the investor (monitor). The monitor must have a real insight into the progress of construction works and have the basic authorization to approve the next stages of construction, and thus to launch subsequent tranches of investment financing.

One may not escape from properly shaping financing undertakings of the parties in case of potential turmoil on the construction market, which is greatly exposed to global crises and turbulences in the supply of construction materials. If the construction process is left to a developer, the entire development risk should not be switched to the investor, whose interest must be shielded by a properly drafted contract.

HANDOVER AND ACCEPTANCE OF THE PROJECT

The process of implementing a residential investment, as well as its handover and acceptance from the developer (and through the developer – from the general contractor) is the domain of the investor's technical advisors, as well as the developer's implementation team. Cooperation in this area is a condition for the timely completion of the project and its success. At this stage, commercial advisors and interior fit-out specialists come to the fore, and, considering market conditions and trends in this area, ensure that the final product is most suited to the changing preferences of future clients. This stage is also a true verification of contractual provisions–without a precisely described process of arrangements and acceptance and the designated role of the investor, developer and monitor, it is easy to end up in time- and money-consuming disputes.

TRANSACTION DOCUMENTATION AND VENTURE SAFETY

The transaction documentation should ensure a smooth process of transferring the completed project to the buyer. As the investor is interested in purchasing the finished product, this process usually takes place after obtaining an occupancy permit. As part of the project handover, the developer should provide the investor with all documentation related to the building under construction, which is necessary for its proper use, including the energy performance certificates, legally required for leasing individual apartments. Moreover, it will be necessary to transfer to the investor the construction guarantees obtained from the general contractor and the building designer, as well as to secure the process of 'handling' any complaints related to building defects, usually appearing in the first two years of occupancy. In some cases, however, it will not be possible to finalize the transaction immediately after obtaining the occupancy permit. In the case of projects implemented on land in perpetual usufruct, obtaining an occupancy permit results in the transformation of perpetual usufruct into land ownership. Although this transformation happens by operation of law, the regulations make real estate transactions involving the transformed real estate conditional on the issuance of a special certificate confirming the transformation. Currently, it takes several months to have such a certificate issued, and this time can be spent on finalizing the offer to future clients and marketing activities.

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