

STATE AND DETERMINANTS OF REAL ESTATE MARKET DEVELOPMENT IN CENTRAL AND EASTERN EUROPEAN COUNTRIES ON THE EXAMPLE OF POLAND AND BULGARIA

Izabela Račka, M.Sc.

Department of Public Management and Law

Faculty of Management

The President Stanisław Wojciechowski Higher Vocational State School in Kalisz

e-mail: i.racka@pwsz.kalisz.pl

Sławomir Palicki, PhD

Department of Spatial and Environmental Economics

Faculty of Management

Poznań University of Economics

e-mail: s.palicki@ue.poznan.pl

Ivo Kostov, PhD

Department of Economics and Management of Construction

Faculty of Economics

University of Economics – Varna (Bulgaria)

e-mail: i.kostov@ue-varna.bg

Abstract

In this paper, the specificity of release and transformation processes of real estate markets in two post-socialist bloc countries, i.e. Bulgaria and Poland, was diagnosed. Comparative analysis of the conditions and directions of change was used as a tool to clarify the current situation, current status and characteristics of these markets. Comparison of Poland and Bulgaria also indicates the prospects for the development of real estate markets. The article is an attempt at assessing the condition and evolutionary progress of the residential segment. The authors also selected obstacles and factors promoting the development of real estate markets in the analyzed countries. This will either enable the critical assessment of changes observed in the past, or prove helpful in the context forecasting market phenomena.

Key words: CEE real estate market, transformation, Poland, Bulgaria, housing.

JEL Classification: O18, P26, P30, R21, R31.

Citation: Račka I., Palicki S., Kostov I., 2015, *State and Determinants of the Real Estate Market Development in Central and Eastern European Countries on the Example of Poland and Bulgaria*, Real Estate Management and Valuation, Vol. 23, No. 2, pp. 74-87.

10.1515/remav-2015-0017

1. Introduction

The transformation process in the countries of Central and Eastern Europe began during a similar period and under similar, difficult economic and socio-political conditions, but the introduction of

different economic reforms and dependence on the economies of different countries has created a variety of effects on the current functioning of the market. Thanks to the reforms carried out, appropriate conditions appeared for the formation of a variety of markets, including the real estate market. Its current shape in these countries is the result of many complex changes. Knowledge regarding the development of the real estate market, especially its residential segment, is important in the light of the need to legalize these markets, formulate relevant provisions of law, and the state's role in achieving target levels of property availability, as a product of high public interest.

The present research aims to:

- 1) diagnose the specificity of release and transformation processes of real estate markets in two post-socialist bloc countries – Bulgaria and Poland,
- 2) clarify the current situation on markets in Bulgaria and Poland,
- 3) indicate prospects for the development of residential real estate markets,
- 4) determine obstacles and factors promoting the development of real estate markets in each of these countries.

The paper concentrates on the research problem of the effects caused by different means of transitioning the Polish and Bulgarian economies from a centrally planned economy to a market economy, and processes associated with other conditions (macroeconomic, geopolitical), on the directions of change and the current state and functioning of the local real estate markets.

2. The real estate sector in centrally planned economies and transition to a market economy

Market economies surpass centrally planned economies because of the ability of prices to freely react and better reflect real social costs. In the previous centrally planned economies, prices did not reflect the true economic deficit, and were not a guide for making decisions. Rents were the most distorted of all prices because of the status of housing as a social (not economic) good. Both the non-priority sector of the residential building industry and the lack of competition caused dwellings to be in short supply (JOWSEY 2011, p. 11). A well-functioning housing market improves labor market efficiency by increasing the mobility of households. Conversion of the housing sector is one of the top priority reforms for governments and international agencies alike (BUCKLEY et al. 1994, p. 1).

The functioning of real estate sectors in centrally-planned economies was different from those of market economies. Construction was subsidized, interest rates were imposed on owners, and rent subsidies for renters and wages were “taxed” to fund these subsidies. Construction costs were previously directly lowered: land was provided for residential use by the state at little or no cost, the price of labor and materials contained subsidies, the state budget provided direct grants to finance the construction of both owner-occupied housing and state cooperatives, and long-term mortgage rates for cooperative and owner-occupied housing were below the market level. The prices of utilities (central heating, electricity, water and sewer, gas, garbage collection) were set below the level of actual costs (BUCKLEY et al. 1994, p. 9). The results of past centrally planned economies on the residential housing market were: low rents, excess demand and thus queues of people waiting for housing, as well as decreased household mobility. Most of the dwellings were situated in cities where large settlements had been built; this shaped the urban space and resulted in the formation of post-socialist urban identities (YOUNG, KACZMAREK 2008, p. 53).

The need to convert the housing sector was universally recognized. Disagreements arose regarding the optimal pattern and rate of adjustment, and the priority of the housing reform over others. The main problems were: (BUCKLEY et al. 1994, pp. 15-19; RENAUD 1996, p. 12).

- 1) the pre-subsidized production costs of state construction companies could be even 40 percent greater than those of their private market counterparts (on example of Czechoslovakia),
- 2) rents in the transition economy were at a level under the market price (with homeowner equity, market rents would be affordable for most households); the transition need creating an environment in which a giveaway would be accepted by tenants who in some cases are now paying very low rents),
- 3) in the case of a go-slow housing privatization approach, the prices were quite low, but some isolated high sale prices could be observed (in some desirable markets they existed because of purchases made by foreigners), which could reduce the housing stock available for citizens,
- 4) a major concern with housing giveaways was that priority often extended to the existing tenant and thus, resulted in the perpetuation of past inequities,

- 5) there was a lack of experience in market-oriented urban planning, specialists in the field of real estate and cost-effective property tax, and financial services were undeveloped.

3. The countries

Under a socialist government, economic reforms were implemented in all of the Central and Eastern European countries, in varying degrees, for over three decades. Earlier reforms maintained a strong political emphasis on socialism, state ownership of assets, a monohierarchical system, and membership of the socialist world market (COMECON¹). Current reforms use a completely different economic model based on the private ownership of property, liberal democracy, and full membership of the international community. The current transformation of the former centrally planned economies into market economies has required the implementation of reforms at an unprecedented scale and scope, involving the concurrent implementation of programs within political, legal, economic, educational, and business institutions, involving nearly 400 million people. The economies of Central and Eastern European countries differ in terms of economic results, but also in the degree of macro-economic instability they faced at the beginning of the reform process (FOLEY et al. 1996, pp. 24-25).

3.1. Bulgaria

Bulgaria (Bulgarian: България) is a country in Southeastern Europe, located on the Balkan Peninsula bordering the Black Sea. It covers an area of 110,994 sq km (14th largest country in Europe). The population is 7.2 million people. Most of the people live in cities which are the administrative centers of Bulgaria's 28 provinces. The vast majority of commercial activities are located in the capital city (Sofia). The strongest sectors of the economy are heavy industry, power engineering and agriculture (KOSTOV et al. 2014, p. 5).

In 1989, democratic change in Bulgaria began. The first multi-party elections since World War II were held in 1990. Following a period of social unrest and the passage of a new constitution, the first fully democratic parliamentary elections were held in 1991. The first direct presidential elections were held the following year. Bulgaria has been a democratic country since the adoption of a democratic constitution in 1991. Bulgaria is a parliamentary republic with a high degree of political, administrative, and economic centralization. It is a member of the European Union, NATO, and the Council of Europe.

Bulgaria had one of the highest standards of living in the Eastern Bloc and, understandably, was one of the last countries to change economic systems. The 1980's was a difficult period as the major market for Bulgaria's products, the Soviet Union, struggled with its collapsing economy. As the Soviet Union dried up as a market for Bulgaria's exports, the enterprises in Bulgaria were not able to replace their most important customer. Bulgaria suffered the most of any Eastern or Central European country from the collapse of the Eastern Bloc. Two thirds of Bulgaria's foreign trade had been with the Soviet Union until 1989, when the Soviet Union collapsed and entire branches of Bulgarian industry were rendered useless. Even today many of these enterprises remain idle (RAYOME, STOCKER 1995, pp. 66-67).

3.2. Poland

Poland is a country in Central Europe situated at the Baltic Sea. The total area of Poland is 312,679 square kilometers, which makes it the 9th largest country in Europe. Its population is more than 38.5 million people. As a unitary state, Poland is divided into 16 administrative subdivisions (KOSTOV et al. 2014, pp. 5-6).

Poland's largely unsuccessful attempts at reform socialism in the late 1970s and 1980s led to a foreign debt of more than \$40 billion, and an over tenfold increase in annual inflation by the latter half of 1989. The country introduced reforms connected with the change of economies, changing its political system over to a democratic one (PARYSEK, WADOWICKA 2002, p. 73). A strict monetary and fiscal policy was introduced in January 1990. Interest rates were raised, the Polish currency (the zloty)

¹ The Council for Mutual Economic Assistance (Russian: Совет Экономической Взаимопомощи, Sovet Ekonomicheskoy Vzaimopomoshchi) was an economic organization between 1949 and 1991 under the leadership of the Soviet Union that comprised the countries of the Eastern Bloc along with a number of socialist states elsewhere in the world. The Comecon was the Eastern Bloc's response to the formation of the Organization for European Economic Cooperation in Western Europe.

was devalued, most prices were freed from previous constraints, and the trade and foreign exchange system was liberalized. In addition to monetary reform, the ownership of assets was a key change in the whole economic restructuring package.

The Solidarity-Communist coalition Parliament introduced the market economy, which limited queues, destroyed black markets, and expanded the quantity of consumer goods. By 1992, state-administered prices remained only in the following sectors: alcohol, electricity, gas, heating and hot water, rents in state housing, the postal service, telecommunications, and state rail and road transportation.

By November 1991, Poland had succeeded in privatizing over 90 percent of its small shops. At the same time, in Bulgaria and Romania, the state still controlled over 70 percent of similar organizations (FOLEY et al. 1996, p. 24).

In the beginning of the 1990s, Poland faced numerous economic problems (GIFFIN 1994, pp. 35-37):

- real wages fell by almost 33 percent (1990),
- industrial production declined by 25 percent (1990), by the end of 1992 the decline in production was more than 50 percent as compared to 1989,
- inflation rate was about 35 percent (1994),
- the zloty was steadily being devalued,
- unemployment rate approached 20 percent,
- food expenditure accounted for about 55 percent of the average consumer's budget, with larger amounts of bread and potatoes, and fewer luxuries including meat being purchased (in 1989 less than 40 percent of the average consumer's income was spent on food).

Poland is a post-Communist country and a member of the EU. The privatization of small and medium state-owned companies and a liberal law on establishing new firms have enabled the development of the private sector. Poland's economy is a mixed economy. The state sector currently produces about 18 percent of GDP (CSO 2014, pp. 100, 274).

3.3. A comparison of the countries' economies and social conditions

The table and figures below show the comparison of the socio-economic situation in the characterized countries. Table 1 presents basic information about the analyzed countries.

Table 1

Comparison of Bulgaria and Poland

Specification/Country	Republic of Poland	Republic of Bulgaria
Area [sq km]	313,000	111,000
Water [percent]	3.07	0.3
Population [mln]	38.5	7.2
Transformation	June 04, 1989	November 10, 1989
NATO membership	March 12, 1999	March 29, 2004
EU membership	2004	2007
2013 data:		
Real GDP growth rate - volume	1.6	0.9
GDP [billion EUR]	390	39.9
GDP per capita	10	5
GDP per capita in PPS (EU28=100)	68	47

Source: Compiled by the authors based on Eurostat.

Inflation in Bulgaria rose between 2005 and 2008, from 5.0 to 12.3 percent; this rise was higher than in Poland (2.1 in 2005, 1.1 in 2006, and rising to 4.3 percent in 2008). Since 2009, the inflation rate in Poland slightly exceeds that of Bulgaria (differing anywhere from 0.1 to 1.0 percentage point). In 2013, the inflation rate in Bulgaria amounted to 0.9 percent and 1.0 percent in Poland. Price level indices for consumer goods and services are below the average EU28 level in Bulgaria, whereas in Poland higher than in Bulgaria (except food and non-alcoholic beverages, and consumer electronics); total price level indices for consumer goods and services in 2013 were: 57 for Poland and 48 for Bulgaria (EU28=100).

The population in Bulgaria has fallen (about 8 percent in 10 years' time), but remained stable in Poland. For comparison, there was a 2.4 percent rise in the average population of EU countries in the last decade.

Unemployment tendencies are similar in both countries (big fluctuations are observed – as opposed to the EU28 unemployment rate, which is more stable). Figure 1 presents unemployment rates in Bulgaria and Poland.

The demographic condition and actual housing situation determines housing needs as well as housing demand (NYKIEL 2011, p. 60). Big differences exist in the size of households, which are smaller in Bulgaria (besides urban areas, where the size of households is similar: 2.45 in Bulgaria and 2.51 in Poland in 2010), as presented in Table 2.

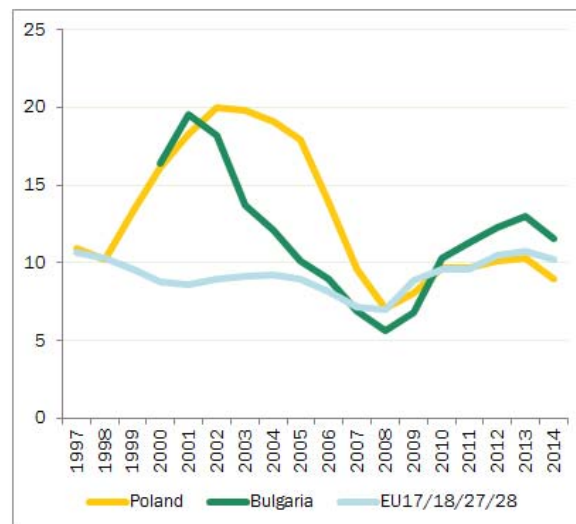


Fig. 1. Unemployment in Poland and Bulgaria [percent]. Source: Compiled by the authors based on Eurostat.

Table 2

Average household size (characterized by degree of urbanization)

Specification	Total		Densely-populated areas		Intermediate urbanized areas		Thinly-populated areas	
	2005	2010	2005	2010	2005	2010	2005	2010
EU27(2005)/EU28(2010)	2.46	2.37	2.36	2.26	2.55	2.46	2.54	2.54
Bulgaria	2.51	2.46	2.5	2.45	2.66	2.55	2.51	2.42
Poland	2.83	2.83	2.5	2.51	3.05	3.1	3.13	3.1

Source: Compiled by the authors based on Eurostat.

Real labor productivity per person is rising in both countries at a higher pace than in the EU28. The nominal unit cost of labor per person in Poland is changing similarly to the tendency revealed by the EU28, while in Bulgaria it is growing rapidly.

GDP in Poland is 10 times higher than in Bulgaria (which is connected with the population count which is 5 times higher in Poland). The share of Bulgaria's GDP in EU28's GDP is 0.3 percent, while Poland's amounts to 2.9 percent. The GDP of both countries has been shown in Fig. 2.

Annual net earnings per person are two times higher in Poland than in Bulgaria and account for 28 and 14 percent of EU28 earnings.

In Poland, more people live in houses than in dwellings, but the difference is not significant, while the increased popularity of living in houses can be observed (in 2005, 49.5 percent of people lived in houses, while in 2013, this share increased to 55.4 percent). In Bulgaria, the tendency is opposite, i.e. in 2005-2007, 59.7 percent of the population lived in a house, then the share of the population living in flats began to increase (56.3 percent of the population lived in a house in 2013).

The median of the housing cost burden distribution (Fig. 3) depends on the degree of urbanization. In Poland, it is higher in densely-populated areas and exceeds the costs in intermediate urbanized

areas and thinly-populated areas by an average of 15 and 13 percent respectively. In Bulgaria, the situation is different: the costs of living in an urban area are the lowest.



Fig. 2. Gross Domestic Product at market prices. Source: Compiled by the authors based on Eurostat.

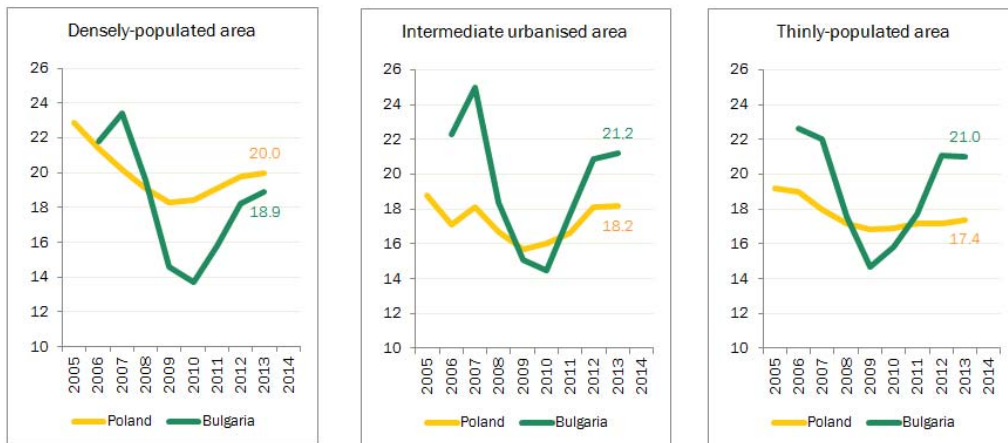


Fig. 3. Median of housing cost burden distribution by degree of urbanization [percent]. Source: Compiled by the authors based on Eurostat.

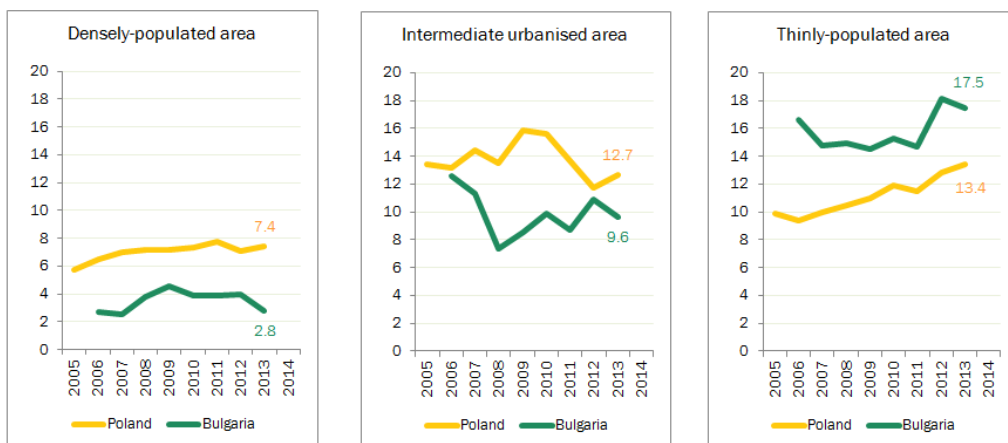


Fig. 4. Share of people living in under-occupied dwellings by degree of urbanization [percent]. Source: Compiled by the authors based on Eurostat.

The share of people living in under-occupied dwellings also depends on the degree of urbanization in the both countries. Generally, there are fewer under-occupied dwellings in urban areas in both

countries (fewer in Bulgaria). More people live in under-occupied dwellings in intermediate urbanized areas, with a similar between the two countries. An interesting situation concerns thinly-populated areas in Poland, where the share of people living in under-occupied dwellings is lower than in Bulgaria, and in 2005-2011 was lower than in intermediate urbanized areas. The differences between the two countries have been presented in Fig. 4.

4. Real estate housing market

4.1. Housing market before the transition

The events following World War II made for a history of housing in Central and Eastern Europe that is very different from that of Western European market economies. Under socialism, the facilities and resources for producing goods were mostly state-owned, while dwellings were either state-owned or cooperative and privately-owned (PALACIN, SHELBURNE 2005, pp. 1-2).

In the major urban areas of most Eastern European countries, public housing was the dominant form of ownership (only about 28 percent of dwellings were in private hands in 1990). In Bulgaria, owner-occupied housing was prevalent, even in the urban areas (over 90 percent of Bulgarians owned their homes before the transition (MERRILL et al. 2003, p. 7), but even for privately-owned residences there was a strong presence of the state in all housing related aspects. Privately-owned housing entails development in providing mortgages, although prior to the transition state-owned banks were a part of the socialist economy, i.e. loans were easily available at relatively low interest rates (PALACIN, SHELBURNE 2005, p. 2); the period for which a loan could be given was 43 years in Poland and 25 years in Bulgaria, with interest rates of 2 percent in Poland) (UNECE 1997). Property turnover was limited; private dwellings were commonly inherited by family members and rarely transferred in terms of under normal market conditions. Apartments fulfilled the people's basic needs, but were not investment goods (JAKUBOWSKI 2010, pp. 83-84).

Construction, especially of flats, was undertaken primarily by state enterprises which produced approximately 55 percent of the new residential units built in Eastern Europe in 1980. The state sector was the largest developer of new properties. In Central European countries, cooperatives constructed about a quarter of newly built dwellings in 1980. In Bulgaria, the share of private developments was over 40 percent of new units. In rural areas, there were some privately owned dwellings – on small, privately-owned farms. In Poland, at the end of the 1960s, the development of the residential building industry accelerated because of a new and efficient building technology (precast concrete large-panel blocks of flats), thanks to which the number of flats in the 1970s was the highest in history (RĄCKA 2013, p. 133). During the years following World War II, Poland transformed from what was, in fact, a rural country into an urban one. Between 1950 and 1990, the percentage of the population living in urban areas increased from 42.5 to 62.1 percent. The number of towns increased from 748 in 1950 to 832 in 1990; the most significant growth occurred in cities with a population of 50,000 to 99,999, and in those of over 200,000 inhabitants (SZYMAŃSKA, MATCZAK 2002, pp. 39-40).

There is no information about price trends before the transition. Rents and utility fees for public housing had a minor share in the total costs of living (PALACIN, SHELBURNE 2005, p. 2).

For at least the last two decades in the centrally-planned economy, as a result of underinvestment, most dwellings were small, low-quality flats, situated in precast block buildings (5 to 20 stories high), usually in peripheral areas of the city; because of the chronic shortage of dwellings, people had to wait a long time for dwellings, and in relation to big apartmentnets – more than one family had to share a single apartment (PALACIN, SHELBURNE 2005, p. 3) – in a Decree titled “Public Management of Residence and Rental”, housing authorities were entitled to allocate occupants to private apartments in the biggest Polish towns (1946) and the whole territory of Poland (1951) (RĄCKA 2013, p. 133).

4.2. Housing market during the transition

With the transition to a market economy, the shift of property rights from state to private owners was assumed, since a dwelling is not a public good and thus does not require government ownership for its production and distribution to be efficient (KOŁODKO 1999, p. 234). In many CEE countries, the transition brought about a rise in poverty and inequality; therefore, there was a bias against the privatization of state-owned dwellings. Housing sector privatization proceeded rapidly in Bulgaria, because of the prior high rate of private ownership, but took longer in Poland (PALACIN, SHELBURNE 2005, pp. 3-5).

The transformation of cooperatives into condominiums is another aspect of housing privatization

reforms in Poland, where a relatively large cooperative sector developed during the socialist period. Cooperatives were mainly a way of saving direct state investments by encouraging households to invest their own resources in obtaining the dwelling (but not ownership rights). Cooperatives became obvious targets for privatization. This type of housing was almost exclusively built in urban areas. Owner occupation was mainly related to single-family houses in the peripheries of cities in rural areas.

In 1993, the federal law in Poland gave cooperative tenants the right of acquisition of legal ownership of flats under the condition of paying off the remaining debt. The tenants who became owners were also allowed to sell the individual dwellings to a third party (PICHLER-MILANOVIĆ 1999, p. 19).

The sale of state-owned dwellings to their tenants is one of the most important and most effective aspects of housing privatization reforms. In order to enable the redemption of the tenants' flats, dwellings were sold at prices below the market level; the price strategy was either a low price depending on construction costs or higher, market price, based on estimated market value. The more frequently chosen option was the low price strategy. In Bulgaria the government started to sell state-owned dwellings as early as 1990. In Poland, the sale of public rented (local authority) housing was developing at a slower pace under the responsibility of local authorities or cooperatives, which were forced to make a decision of whether to sell or manage the public-owned housing real estate; this resulted from the fact that there was no national housing policy and decentralization of state housing to local governments. The sale of public rented housing was delayed mostly due to the problems of property rights to buildings, the legal status of cooperatives and individual dwellings in multi-family buildings in urban areas, as well as uncertainties about the obligations and advantages of ownership, low rents, strong tenants' rights, an undeveloped housing market, and/or the poor quality of the housing stock (PICHLER-MILANOVIĆ 1999, pp. 20-22). The sale of public rented dwellings in Bulgaria and Poland in the 1990s has been presented in Table 3.

Table 3

The sale of public rented housing in Bulgaria and Poland

Country	Years	Share of public rented housing in total housing stock before privatization (1990/1991)	Share of public rented housing in total housing stock after privatization (1994/1995)
Bulgaria	1990-1991	15	7
Poland	1993-1995	30	25

Source: PICHLER-MILANOVIĆ 1999, p. 21.

After 1989, state-owned companies called "building factories" collapsed due to the lack of housing and development of a financing system. During the 1990s the number of commissioned dwellings fell to approximately 30-50 percent of 1980 levels in particular countries. In Bulgaria, the number of newly built flats increased by less than 2 percent in the 1990s, and in the capital city of Sofia, the number of new dwellings fell from around 16,000 in 1988 to only 1,000 in 1995. Similarly large declines occurred both in Bulgaria and Poland: the number of flats commissioned during the last two decades is comparable (9% lower) to that during the Polish peak of the 1970s; the number of flats commissioned during the 1990s was less than half their number in the 1980s (PALACIN, SHELBURNE 2005, pp. 3-5; RAČKA 2013, pp. 133-134).

One of the most efficient ways of housing management, maintenance and rehabilitation as seen in Central and Eastern Europe is making the property private, often for less than the market price, which also gives the owner security. Over the course of reforms, the governments ensured solutions to the parts of buildings which did not belong directly to the dwellings in multifamily buildings (e.g. walls, roof, stairwells, land, etc.). The ownership of individual dwellings was transferred together with a share in the common property. At the beginning of the housing reforms, the owners of new dwellings received property rights but, because they were, together with the state or local authority, co-owners of the common parts of the building, not adequate control over the management and maintenance of their building. Not all of the CEE countries have introduced regulations regarding housing communities. In Poland, owners' associations are required in all privatized buildings (PICHLER-MILANOVIĆ 1999, pp. 28-29).

4.3 The current housing market

The low degree of marketability was connected with poor quality. The market value of prefabricated dwellings is likely to decline as more modern properties are built. The quality of new buildings (building materials, surface) has improved. The economic transition influenced economic activity and thus, regional housing demand. Negative implications in terms of labor mobility have been observed: the lack of a well-developed rental market, especially for low-rent accommodation, and restricted mobility (PALACIN, SHELBURNE 2005, pp. 7-8). Another result of the reforms was a significant increase in housing costs, presented in Fig. 5.

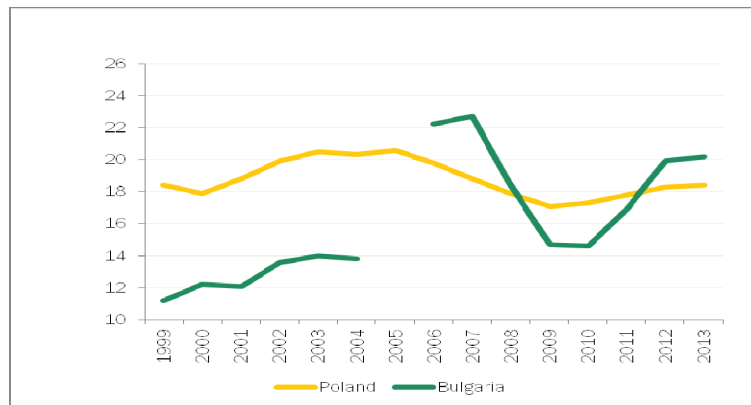


Fig. 5. Median of housing cost burden distribution. *Source:* Compiled by the authors based on: PALACIN, SHELBURNE 2005, p. 7 and Eurostat.

4.3.1. Housing loans

In countries with more advanced economies, only a small part of people is able to finance the purchase of a flat or a house out of their savings; that is why an appropriate financing system (availability of mortgages) is required (necessary) (Kolodko 1999, p. 247). In Bulgaria, the government began the restructuring the banking sector in 1987, forming a central bank, 7 major banks and several dozen commercial banks (the major shareholders of which were state enterprises and the Central Bank) (Levinson 1995, 104). Furthermore, the government in Poland created a mortgage banking system, with four functioning mortgage banks (KUCHARSKA-STASIAK, MATYSIAK, 2004, p. 9).

In Bulgaria and in Poland, the number, value and share of mortgages in the GDP continued to rise until the times of the World Financial Crisis. New interest rates on long-term housing loans for households in both of the analyzed countries decreased from 2008 (SIEMIŃSKA, RYMARZAK 2014, p. 77). Fig. 6 shows the share of mortgages in the GDP of Poland and Bulgaria. New interest rates on housing loans have been presented in Fig. 7 and Fig. 8.

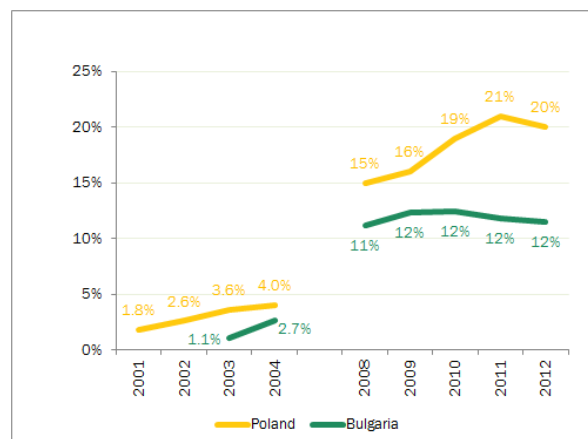


Fig. 6. Share of mortgages in GDP [percent]. *Source:* Compiled by the authors based on: PALACIN, SHELBURNE 2005, p. 10 and Eurostat.

4.3.2. Housing price data

Housing price trends are difficult to estimate because houses are heterogeneous and rarely traded. The value of a residential property is defined by the value it could bring under current market conditions, which are continuously changing. In Bulgaria and Poland, the transactions are recorded, but in Poland there is no practice of collecting or providing neither housing price data (price level) nor price indices. House price indices in Bulgaria and the Euro zone have been shown in Fig. 9.

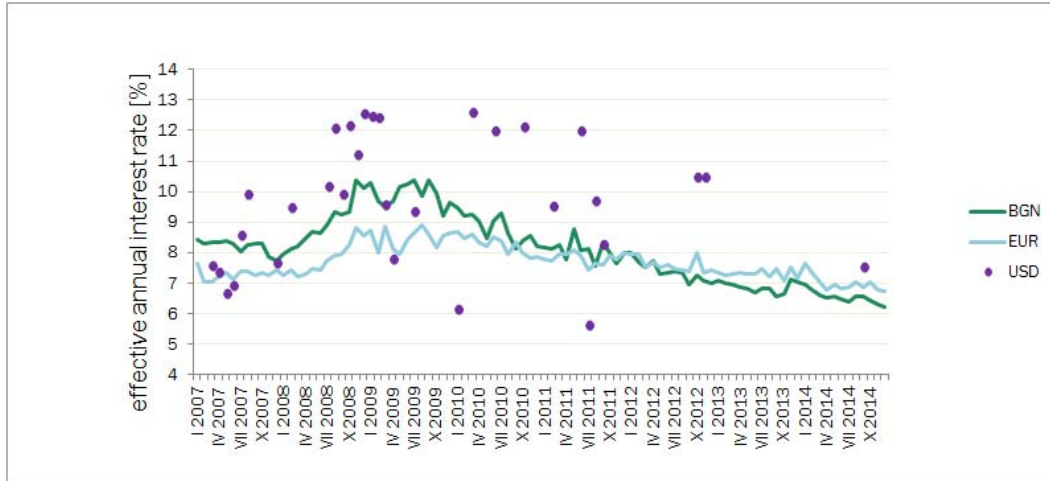


Fig. 7. New interest rates on housing loans for households and non-commercial organizations with over 10 years maturity in Bulgaria. *Source:* Republic of Bulgaria National Statistical Institute.

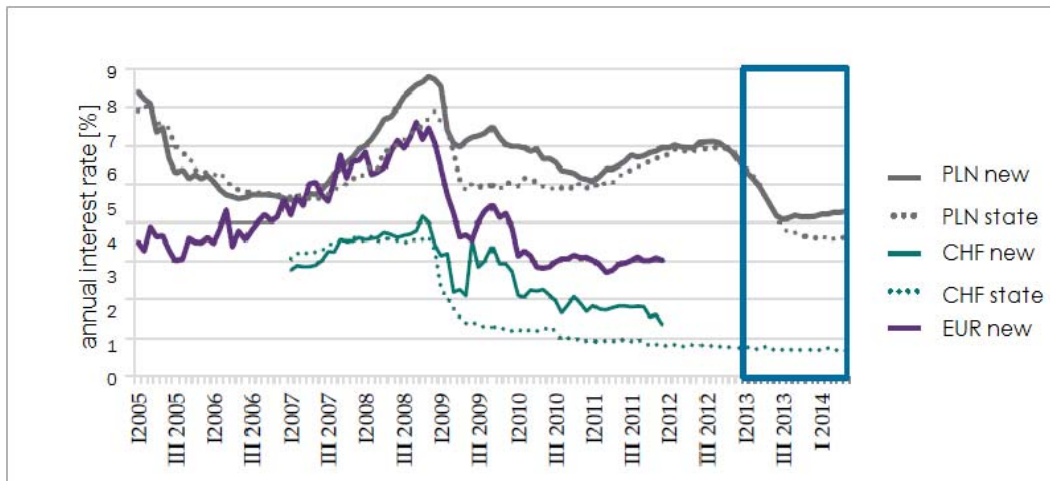


Fig. 8. New interest rates on housing loans for households in Poland. *Source:* National Bank of Poland.

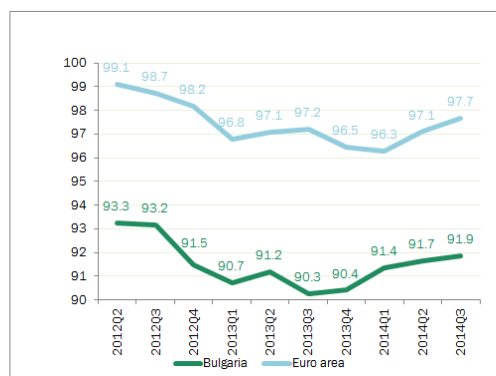


Fig. 9. Housing price indexes [2010=100]. *Source:* Compiled by the authors based on Eurostat.

The last years in Poland and the past year in Bulgaria have been the most successful for the property market since the beginning of the crisis.

In Bulgaria, the residential market went through a full cycle of development over the twelve-year period (2003Q1-2014Q4). In economic theory, cyclic recurrences of markets are associated with the following stages: dynamic growth, saturation, decline, retention and recovery (re-growth). These stages are fully expressed in the housing market of the country in the recent years, and the official data published by the National Statistical Institute of Bulgaria are proof of the thesis (Fig. 10). One of the main points in the analyzed period is an over threefold increase in the prices of dwellings in Bulgaria (during 2003-2008). The main factors that influenced the dynamics of the market are: expected EU accession, a significant amount of foreign direct investment, easy access to financing (especially from banking institutions), growth of income per capita, and a high level of employment of the working population. The period 2008Q3-2013Q1 is related to the global financial (economic) crisis that occurred with full force in Bulgaria. In connection with these processes, the above factors are manifested in their opposite meanings, as in the final result which negatively effects the real estate market. During this period, the average annual decline in the prices of residential real estate was significantly lower as a result on the final price reached in the prices of these assets, amounting to about 15 percent, while prices fell to levels of 443 EUR/sq m (2013Q1). Nowadays, the residential market is entering a new stage of development, the drop in property prices has stopped (the first signs of recovery in the housing market have been noted: a slight increase in dwelling prices in 2014,) and many buyers are returning to the market.

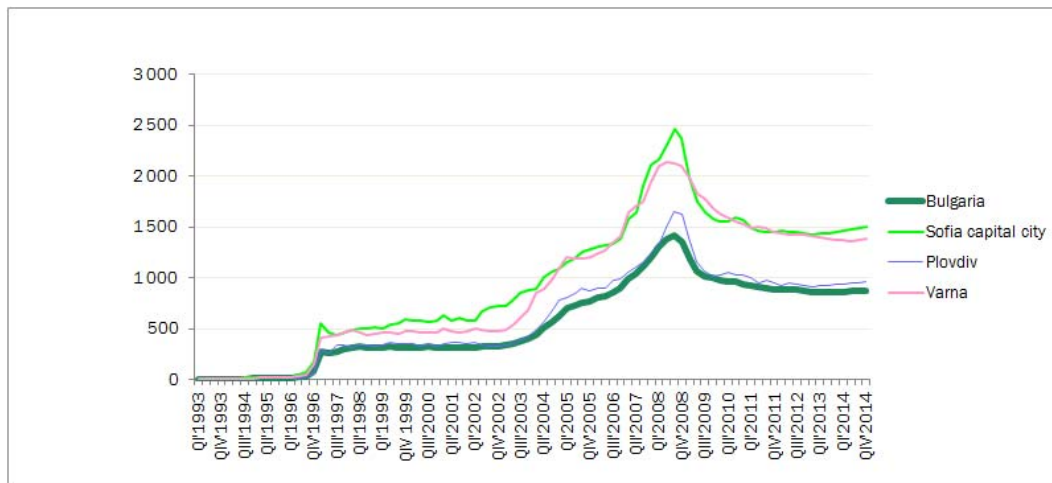


Fig. 10. Average market prices of dwellings in Bulgaria [BGN/sq. m]. Source: Compiled by the authors based on Eurostat.

In Poland, average prices, both on the primary and secondary residential market, remained stable in 2012-2014. In large Polish cities, the unit prices on the primary market are higher than those on the secondary market. The number of completed dwellings continues to decrease (according to data from the Central Statistical Office of Poland, 2013 in Poland opened with 146.1 thousand of flats, this is 6.8 thousand fewer than the previous year). The time required to sell houses on the primary market was shortened, but slightly lengthened on the secondary market. An increase in demand was observed on the housing market which was mainly due to the rising incomes of households. The number and value of PLN housing loans rose; there has also been an improvement in the availability of housing credit indicators. Unusually low interest rates on housing loans in PLN caused a very interesting situation when in large cities it became more cost-effective to purchase an apartment on credit than to rent it. Average market prices of dwellings have been shown in Fig. 11.

The vacancy on the residential market in Bulgaria is difficult to estimate. In Sofia, there were 15% vacant units in the mid-plus and high-end residential segment in 2013, which is less than before. The most popular are two and three bedroom apartments. The majority of the deals taking place in this segment are for the buyers' personal use. Asking prices remain stable and vary widely between 850 and 1,600 euro per sq. m (VAT included); the most common discount on residential units was between 11 and 14 percent.

According to data achieved during the National Census of 2011, over 7 percent of the total number of dwellings in Poland were not inhabited, i.e. approximately 970 thousand dwellings. In cities, the percentage of unoccupied dwellings amounted to 5.6 percent of the total housing, and 10.4 percent in rural areas. In cities, the highest shares of unoccupied dwellings in the total number of flats were recorded in the Mazowieckie Voivodship – 10.9 percent, Lodzkie Voivodship – 6.9 percent and Malopolskie Voivodship – 6.4 percent; in the countryside, the most uninhabited dwellings were noted in the Podlaskie Voivodship – 17.8 percent, Lodzkie Voivodship – 15.4 percent and Mazowieckie Voivodship – 14.5 percent.

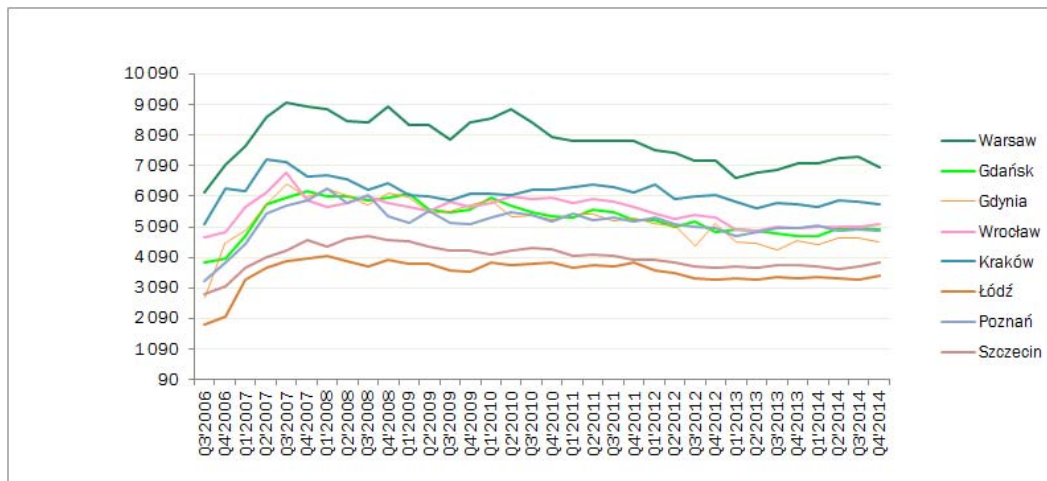


Fig. 11. Average market prices of dwellings (secondary market) in Poland [PLN/sq m]. Source: Compiled by the authors based on the National Bank of Poland.

5. Conclusions

- 1) Poland and Bulgaria were characterized by similar economic conditions (a centrally planned economy) and political situation (socialist system) in 1989, when market changes began.
- 2) In the major urban areas of most CEE countries, public housing was the dominant form of ownership (only about 28 percent of dwellings were in private hands in 1990). In Bulgaria, owner-occupied housing was prevalent even in urban areas (over 90 percent of Bulgarians owned their homes before the transition (MERRILL et al. 2003, p. 7)), but even for privately owned residences there was a strong presence of the state in all housing-related aspects.
- 3) Privatization of housing stock was the first stage of changes towards a free real estate market. The sale of public rented housing to sitting tenants in the 1990s represents the most effective instrument of housing privatization through the transfer of ownership rights to sitting tenants below market prices. The sale price was reduced to compensate (new) home owners for the deferred maintenance and personal investments required from the tenants for access to and the cost of repairs/maintenance on the dwelling. An early sale of public rented housing occurred in Bulgaria already in 1990. In Poland, the sale of public rented (local authority) housing was developing at a slower pace at the responsibility of local authorities or cooperatives. These changes were realized faster in Bulgaria because of the high percentage of private ownership in housing stock prior to the change.
- 4) During the period between 2003 and 2008, there was a rapid rise of dwelling prices in Poland and Bulgaria (a threefold rise in Bulgaria). The main factors that influenced the dynamics of the market were: expected EU accession, significant amount of foreign direct investment, easy access to financing (especially from banking institutions), growth of income per capita, and a high level of employment of the working population. The period between 2008 and 2013 was related to the global financial (economic) crisis that occurred full force in Bulgaria. In Poland, the housing market was under pressure of the crisis between 2008 and 2011. Starting in 2012, the situation in Poland got better and prices tended to stabilize.
- 5) Shock therapy in Poland as a pioneer method of transitioning from a centrally planned economy, in conjunction with legislative reforms relating to the real estate market, affected the order and radical dynamism on the analyzed market. Reforms in Bulgaria had a less restrictive nature,

forming the secondary wave of political changes in Central and Eastern Europe. The country's attractive location, which generated the presence of investors from Russia, who own 10% of the housing stock in Bulgaria, was of great importance to the development of its housing market. It can therefore be argued that in the case of Bulgaria, the amplitude of market transformation was suppressed by geolocation specifics. As a result, the residential real estate markets in large, attractive cities in the surveyed countries nowadays offer approximately similar price levels, which, with the clearly lower purchasing power of the Bulgarian society, is resulting in the reduced economic availability of housing in relation to the Polish one. Such a situation should be assessed as more favorable for the Polish market, which is basically dedicated to local customers, thus avoiding price fluctuations determined by economically strong orientation towards foreign buyers.

6. References

- BUCKLEY R. M., HENDERSHOTT P. H., VILLANI K., 1994, *Rapid housing privatization in reforming economies: pay the special dividend now, urban development division transportation, water and urban development department environmentally sustainable development*, The World Bank, (WORKING PAPER)
- CLAPHAM D., HEGEDŰS J., KINTREA K., TOSICS I., KAY H., 1996, *Housing Privatization in Eastern Europe*, Greenwood Press, Westport-London.
- FOLEY P., HUTCHINSON J., KONDEJ A., MUELLER J., 1996, *Economic development in Poland: a local perspective*, *European Business Review*, Vol. 96, Issue 2, pp. 23-31.
- GIFFIN P. E., 1994, *Institutional Development in a Transition Economy: The Case of Poland*, *International Journal of Social Economics*, Vol. 21, Issue 7, pp. 35-55.
- JAKUBOWSKI R.M., 2010, *Wpływ transformacji ustrojowej na rynek nieruchomości w Polsce. Analiza z perspektywy wybranych modeli mikroekonomicznych [The Impact of the Transformation Process on the Residential Real Estate Market in Poland. Analysis of Selected Models from the Microeconomic Perspective]*, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu.
- JOWSEY E., 2011, *Real Estate Economics*, Palgrave MacMillian, Basingstoke, New York.
- KUCHARSKA-STASIAK E., MATYSIAK G., 2004, *The Transition of the Polish Real Estate Market within a Central and Eastern European Context*, *Working Papers in Real Estate & Planning* 16/04, pp. 26.
- KOLODKO G.W., 1999, *Transition to a market economy and sustained growth. Implications for the post-Washington consensus*, *Communist and Post-Communist Studies*, Vol. 32, Issue 3, pp. 233-261.
- KOSTOV I., PALICKI S., RAĆKA I., 2014, *Comparison of Bulgarian and Polish Residential Market as an example of Varna, Poznan and Kalisz*, *Biuletyn Stowarzyszenia Rzeczoznawców Majątkowych Województwa Wielkopolskiego*, No. 3 (41), pp. 5-15.
- LEVINSON A., 1995, *Bulgaria's Transition to a Market Economy*, *Demokratizatsiya: The Journal of Post-Soviet Democratization*, No. 1, pp. 103-109.
- MERRILL S., RABENHORST C., SACKS P., 2003, *Developing secondary mortgage markets in Southeast Europe. Assessment of the Mortgage Market in Bulgaria*, Washington, D.C., Urban Institute
- National Accounts by Institutional sectors and sub-sectors 2009-2012*, *Statistical Analyses and Studies*, Warsaw, 2014.
- NBP, 2013, *Raport o sytuacji na rynkach nieruchomości mieszkaniowych i komercyjnych w Polsce w 2013 r. [Report on the Situation in the Residential and Commercial Real Estate Markets in 2013]*.
- NYKIEL L., 2011, *Demograficzne uwarunkowania rozwoju mieszkalnictwa i rynku mieszkaniowego [Demographic Factors Influencing Housing and Housing Market Development]*, *Studia i Materiały Towarzystwa Naukowego Nieruchomości [Journal of the Polish Real Estate Scientific Society]*, Vol. 19, No. 3, pp. 60-72.
- PALACIN J., SHELBURNE R. C., 2005, *The Private Housing Market In Eastern Europe And The Cis*, Discussion Paper Series No. 2005.5, United Nations Economic Commission For Europe, Geneva, Switzerland.
- PARYSEK J.J., WADOWICKA M., 2002, *Polish Socio-Economic Transformation: Winners and Losers at the Local Level*, *European Urban and Regional Studies*, Vol. 9, No. 1, pp. 73-80.
- PICHLER-MILANOVIĆ N., 1999, *Housing Privatization in Central and Eastern Europe: From Policy to Practice*, United Nations University.
- RAYOME D. L., STOCKER J. A., 1995, *Bulgaria: Privatization, Risk and Reality*, *Managerial Finance*, Vol. 21, Issue 4, pp. 65-76.
- RAĆKA I., 2013, *Sales of Residential Properties Illustrated with the City of Kalisz*, *Journal of International Studies*, Vol. 6, No. 2, pp. 132-144.

- RENAUD B.M., 1996, *Housing Finance in Transition Economies: The Esrly Years in Eastern Europe and the Former Soviet Union*, Policy Research Working Paper, World Bank Publications.
- SIEMIŃSKA E., RYMARZAK M., 2014, *Development Conditions of Polish Housing Market During Economic Crisis*, *Real Estate Management and Valuation*, Vol. 22, Issue 4, pp. 68–80.
- SZYMAŃSKA D., MATCZAK A., 2002, *Urbanization in Poland: Tendencies and Transformation*, *European Urban and Regional Studies*, Vol. 9, No. 1, pp. 39–46.
- UNECE, 1997, *Human Settlements Trends in Central and Eastern Europe*.
- YOUNG C., KACZMAREK S., 2008, *The Socialist Past and Postsocialist Urban Identity in Central and Eastern Europe. The Case of Łódź, Poland*, *European Urban and Regional Studies*, Vol. 15, No. 1, pp. 53–70.