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## **An Influence of Location Prestige Factor on Price of Dwelling\*\***

### **1. Introduction**

The main objective of the paper is presentation changes which were taking place on real estate market in Poland within the period of 2007–2009 in the biggest Polish towns, and on this background – prices of extremely expensive dwellings. Presented data and results of researches show trends for prices of offered dwellings. One should add, that medium prices data are taken here into account. They concern prices on both primary and secondary market, discussed together.

Real estate market in Poland was the problem of big interest lately, mainly because of increasing of real estate prices. Despite the high prices of real estate, dwellings were commonly bought. It was mainly caused by strong fear of permanent increasing of real estate prices and also increasing tax value paid yearly from real estate.

There is no institution in Poland dealing with recording real estate prices. It causes that data about dwellings market are inconsistent and hard to compare. It is easy to determine trends on market if there is visible prosperity. To perform such work is more difficult in case when trends are inconsistent or they have little changes.

There were taken into account in Poland data concerning such towns as:

- Warszawa,
- Poznań,
- Gdańsk,
- Gdynia,
- Katowice,
- Lublin.

They are biggest towns in Poland, representative for real estate prices.

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\*\* The paper has been worked out within University research program no 11.1.150.006.

Lists have been made on the basis of monthly reports concerning medium offered of dwellings prices in selected towns. They have been worked out by OpenFinance [12]. It assures full comparability of prices data coming from the whole presented period. Lists have been worked out for the period 2007–2009 years.

Mentioned data concern prices of offered luxurious dwellings located in direct centres or at so called “old cities” of examined towns. They come from internet portals inserting offers of real estate selling, from web pages of various offices of real estate trade and from registered developers. Offers of individual owners of real estate were not taken into account, at all.

## 2. Characteristic of Dwellings Being the Subject of Researches

Dwellings being the subject of researches are mainly new flats (so called: as built apartments), accepted for using in a short period of time from the moment of researches. They are also existing but renewed flats with highest standards of their furnishing. They are mostly in old, monumental tenement houses, located in direct centres of towns.

Characteristic features as apartment has, is high standard of quality of work, the newest technologies of building (thermal and acoustic isolations, comfortable furnishing and big usability of common space. Such dwelling also demands additional services like reception, personal assistance necessary for apartment daily cleaning, little repairs, and so on. Building monitoring is also an essential factor, increasing the level of safety of owners of apartments.

The factor, distinctly distinguishing apartments from other dwellings on real estate market, is their prices. It results from the fact that purchasing of dwelling, which price exceeds over a dozen or so thousands PLN for 1 m<sup>2</sup>, in attractive located and rich furnished building, means prestige for purchaser and may be assumed that purchaser has high society status.

In order to describe this problem, some graphs showing lists of offered medium prices for 1 m<sup>2</sup> space of luxurious dwelling, have been prepared. They concern biggest towns in Poland in 2007 through 2009 years (Fig. 1–3) and summary graph showing list of offered medium prices for 1 m<sup>2</sup> space of luxurious dwelling in biggest towns in Poland in 2007 through 2009 years (Fig. 4)

At first, trend does not show distinct changes. Falling down prices is “hidden” in decreasing difference between offered prices and selling prices. It is distinctly visible decreasing trend of offered medium prices in the next periods. It is also visible “calming down” and stabilization of prices in the last period.

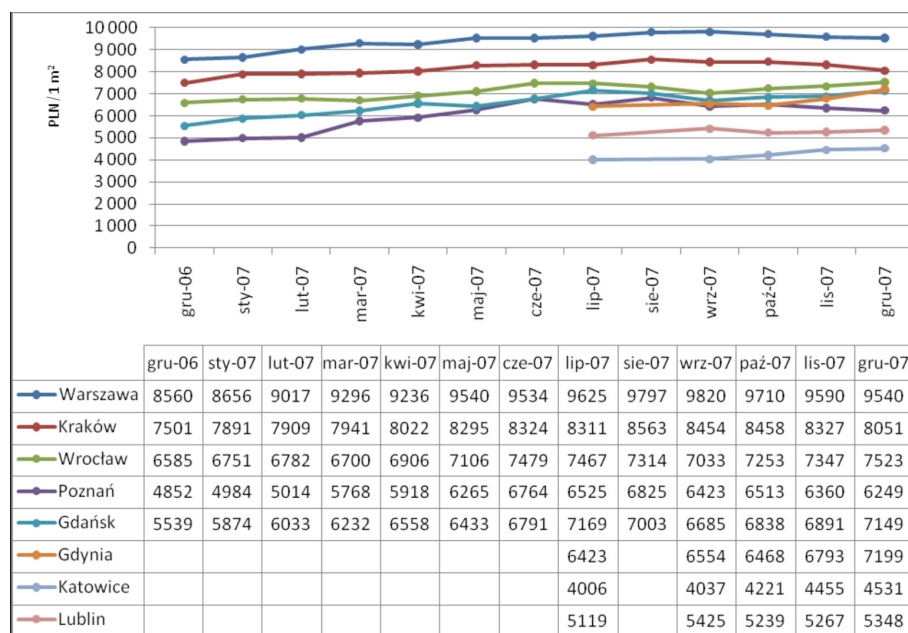


Fig. 1. List of offered medium prices for 1 m<sup>2</sup> space of luxurious dwelling in biggest towns in Poland in 2007 year

Source: [12], modified by authors

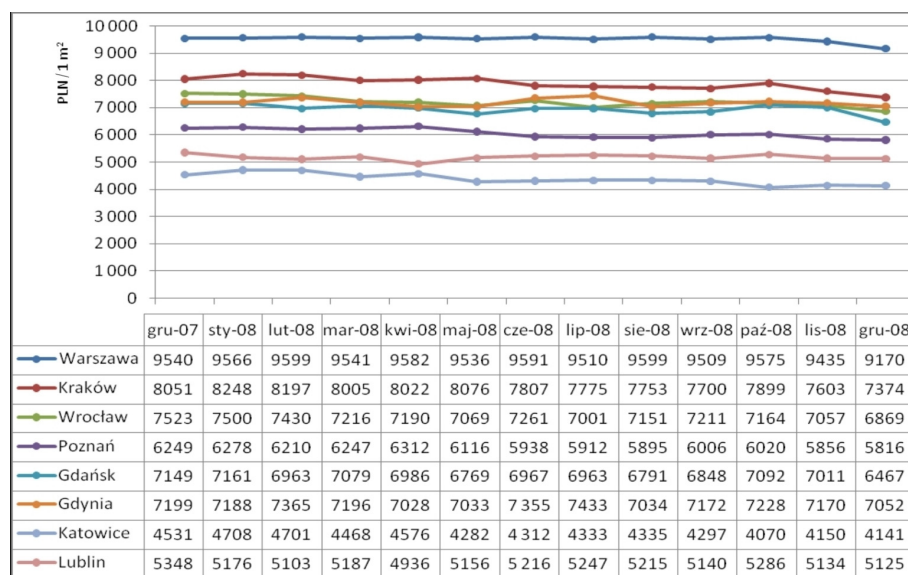
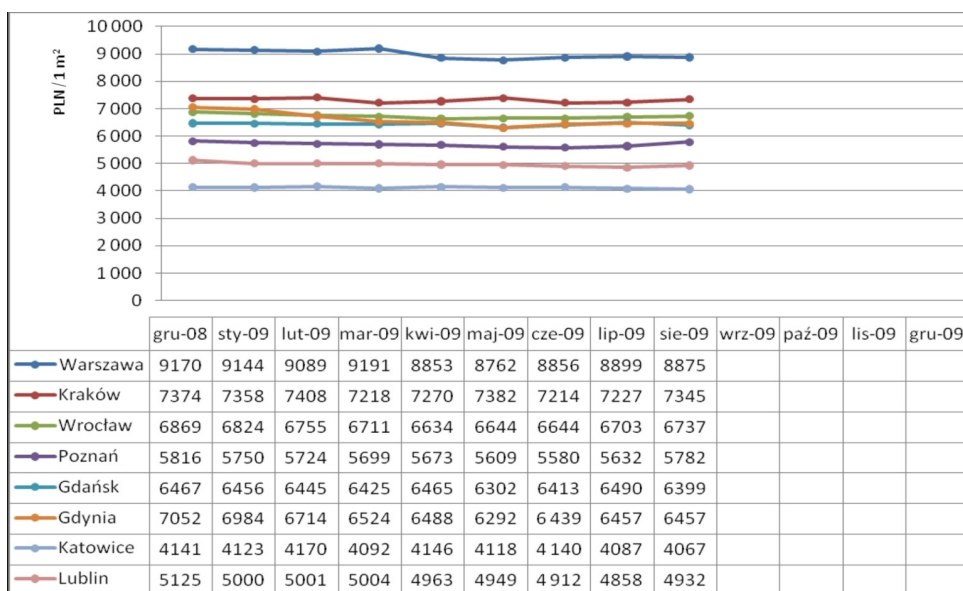


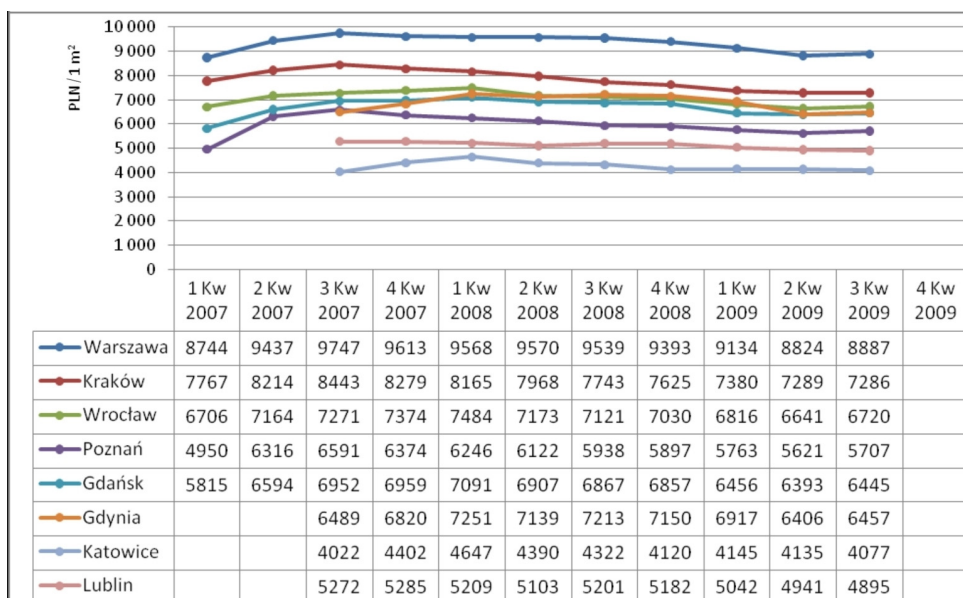
Fig. 2. List of offered medium prices for 1 m<sup>2</sup> space of luxurious dwelling in biggest towns in Poland in 2008 year

Source: [12], modified by authors



**Fig. 3.** List of offered medium prices for 1 m<sup>2</sup> space of luxurious dwelling in biggest towns in Poland in 2009 year

Source: [12], modified by authors



**Fig. 4.** List of offered medium prices for 1 m<sup>2</sup> space of luxurious dwelling in biggest towns in Poland in 2007 through 2009 years

Source: [12], modified by authors

### 3. Prices of Dwellings with Prestige Location in Selected Polish Towns<sup>1</sup>

As it has been mentioned earlier, one can separate on real estate market, a group of dwellings, located in direct centres of towns. They are in close neighbourhood their monumental parts, with big so called "potential view" (for example Krakow major market with the view at Sukiennice). Such dwelling should be either modern, very attractive apartment of extremely high standard or renewed flat in monumental tenement house. Prices for 1 m<sup>2</sup> space of mentioned dwelling reach several dozen thousands for 1 m<sup>2</sup> space, in spite of the fact that the area of such dwelling exceeds significantly 100 m<sup>2</sup>.

By so high prices on the market, differences between upset prices and transaction prices are usually some percent less than in the rest transactions.

Purchasers looking for dwellings of unique location must take into account their extremely high prices, reached "sky-high" level, sometimes. Thus, in Warszawa, for example nearby Plac Zamkowy (Castle Square), it is value almost 45 thousand PLN for 1 m<sup>2</sup> space. The newest record at this field is the price of dwelling with adjoining places, located by Mikołajska street in Krakow (between major Market and minor Market) of area 140 m<sup>2</sup>. Upset price for this dwelling is 8.5 million PLN, that is medium price for 1 m<sup>2</sup> space exceed 60 thousand PLN<sup>2</sup>. Of course they are single cases and moreover concerning the most attractive towns. Usually, upset prices reach 1.5 to 2 times value of medium prices for quarter of the town. The bigger, more attractive and prestige town, the bigger difference in upset prices for 1 m<sup>2</sup> space of dwelling.

Old City in Warszawa, capital town, is the "prices leader" on Polish real estate market. Similarly, medium price of dwelling in Warszawa (excluding the most fashionable resorts as Sopot and Zakopane), is also the highest in Poland. Medium offered prices for the whole town oscillate at 9 thousand PLN for 1 m<sup>2</sup> of its space. The highest prices of dwellings located on Old City in Warszawa reach the value of 44 thousand PLN for 1 m<sup>2</sup> space, with medium price for 1 m<sup>2</sup> space being for Old City about 25 thousand PLN for 1 m<sup>2</sup> space.

Kraków, Polish town, having many monumental places with former residence of Polish kings and other monuments is one of the most attractive places for settlement. The highest price for 1 m<sup>2</sup> space reaches here 60 thousand PLN for 1 m<sup>2</sup> space. Medium prices reach 22 thousand PLN in the direct centre of Krakow,

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<sup>1</sup> Researches have been done on the basis of the advertisements from primary and secondary market, inserted on portals [6–8], [10–12] within the period of January 2008 – September 2009, considering dates of placing offers.

<sup>2</sup> Offer was not taken into account in the list [7].

by contemporary medium price, being on level on slightly more than 7 thousand PLN for 1 m<sup>2</sup> space.

Wrocław is the following, extremely attractive place for living. The highest price for 1 m<sup>2</sup> space reaches here 30 thousand PLN for 1 m<sup>2</sup> space. Medium prices are on 11.5 thousand PLN, by medium price in Wrocław being now below 7 thousand PLN for 1 m<sup>2</sup> space.

Medium price for 1 m<sup>2</sup> space in Old City in Gdańsk is 10.5 thousand PLN for 1 m<sup>2</sup> space, and the highest price reaches 17 thousand PLN zł for 1 m<sup>2</sup> space, by medium price in Gdańsk being on level of 6.5 thousand PLN for 1 m<sup>2</sup> space.

Medium price for 1 m<sup>2</sup> space in Old City in Poznań is 7.3 thousand PLN for 1 m<sup>2</sup> space. The highest price is over 11 thousand PLN for 1 m<sup>2</sup> space, by medium price in Poznań being on level of 5.5 thousand PLN for 1 m<sup>2</sup> space.

On the basis of short analysis of presented data, it is clearly visible diminishing interval between the highest and medium values for towns, presented in order. It is shown on graph for selected towns and years from 2007 to 2009, divided into quarterly periods (Fig. 5). For rest towns the interval between maximum prices and medium ones, is distinctly flattened. The smaller and less attractive town the less difference between prices.

On the basis of graph (Fig. 5) one can also see, that maximum prices in examined period of time does not fulfil any rule, and their distribution seems to be accidental. Prices have only one common feature depending on that maximum prices are visible higher and higher. Probably it is an effect of ending of financial crisis. One must also clearly state, that maximum prices concern individual or not numerous offers at similar price level. One should also add, that mentioned prices show only appearance of maximum price of offers for 1 m<sup>2</sup> space. It results from the fact, that number of these offers does not allow on their statistical working out. In order to show list of prices changes on real estate market, mediana is used more and more frequently, instead of medium value<sup>3</sup>. It better considers, as it seems, appearance of extreme values.

It is also worthy remarking, that extremely high level of upset prices is the factor encouraging rich clients to purchase dwelling. They are individuals who want to rise their social status – through purchasing a very expensive dwelling.

Everywhere is visible a tendency: the closer to the “old city” the more expensive dwellings. Differences in prices between several towns result from level of medium prices in town. Some inconvenient factors connected with location of dwelling (mainly difficulties in individual transport) are of no importance.

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<sup>3</sup> Mediana (called also central value or second quantile) is in statistics a value of feature in ordinal series, where above and below there is the same number of observations [1]. For even number of observations it is average value of two central numbers.

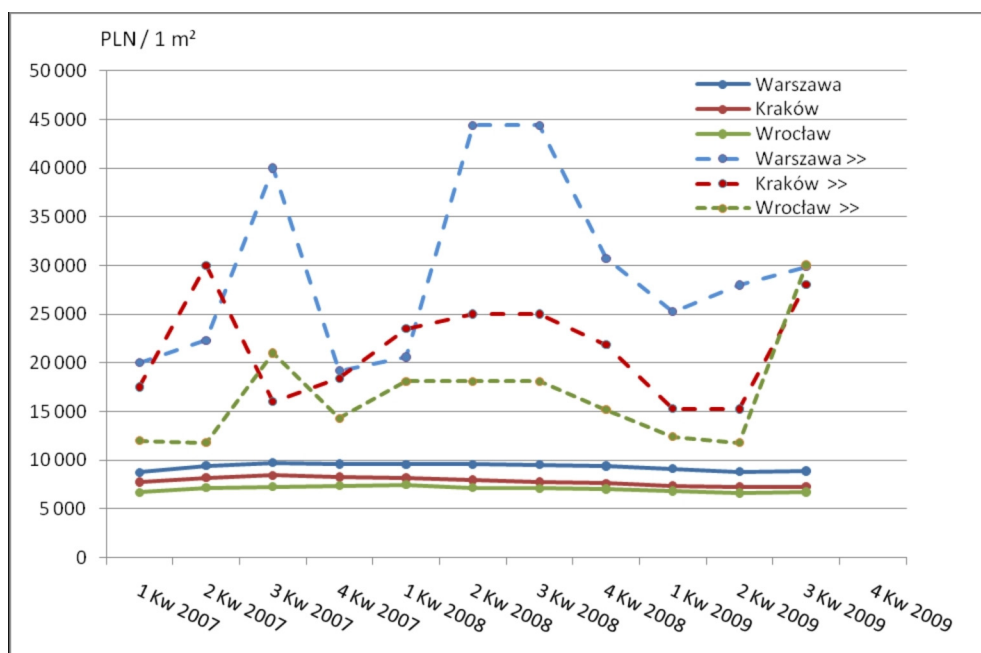


Fig. 5. Medium and maximum prices for 1 m<sup>2</sup> space of luxurious dwelling for 2007 through 2009 years, divided into quarterly periods, in selected Polish towns

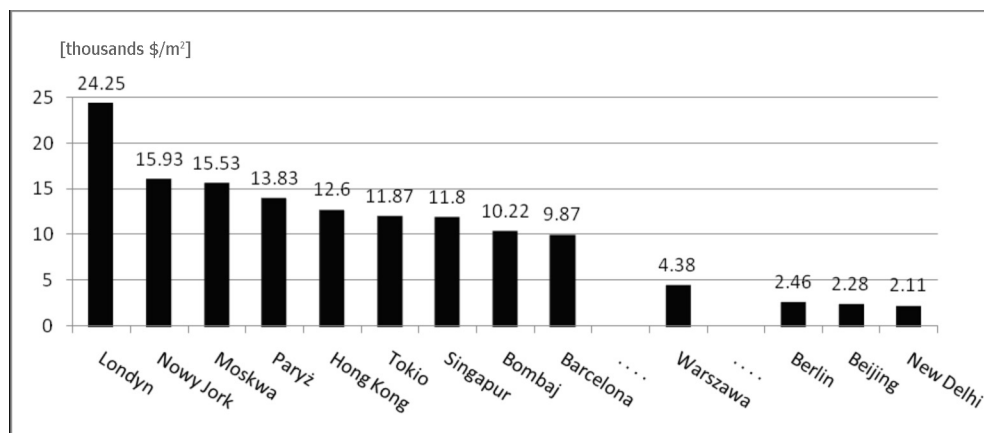
Source: [6–8, 10–12], modified by authors

As it is visible in described cases, crucial factors determining the level of value (upset price) of dwelling, are not such structural features as area of dwelling or its technical condition, but mainly features of surroundings. They can influence, both positively or negatively, on level of value of real estate. Yet, the major and the most important factor, determining the value of dwelling is its location.

#### 4. Prices of Dwellings with Prestige Location in Selected Towns in Europe and in the World

In order to show tendency in prices trends in worldwide, we use a list of data concerning prices of luxuries dwellings in the biggest towns in 2008, created by Globalpropertyguide.com [9], presented on figure 6. Graph shows prices of dwellings of space more than 120 m<sup>2</sup>, located in direct centres of towns. From the presented graph results that the most expensive town in Europe is capital of England. In London one must pay for 1 m<sup>2</sup> space of luxurious dwelling up to 24 thousand USD, and in Warszawa over 4 thousand USD for 1 m<sup>2</sup> space.





**Fig. 6.** Prices for 1 m<sup>2</sup> space of luxurious dwelling (in USD) of space about 120 m<sup>2</sup>, located in direct centres in selected Europe towns

Source: [9], modified by authors

According to data given by portal [9], Warszawa occupies the 19th place in the rank of prices of luxuries dwellings in the world.

One should also remark:

- very big difference of prices between London and New York, occupying the second position in the rank, and following towns;
- extremely interesting fact, that prices in Berlin (31st places) are almost twice lower as in Warszawa are.

It seems, that partial conclusions which one can create for Poland, on the basis of graphs, are essentially contrasting, that is:

- prices of luxurious dwellings in Warszawa will grow, taking into account that prices in London are significantly higher;
- prices of luxurious dwellings in Warszawa will become stabilized, or slightly go down, taking into account, that prices (for example in Berlin) are significantly lower.

One can also draw more probable conclusion than previous ones. Moreover, it seems to be intuitively the most reasonable. Here it is: prices of luxurious dwellings will grow or go down, and it results from the fact that this group of real estate is extremely difficult to create prognosis within the range of prices, taking additionally into account that difference in prices, being 20 percent of estimated price of real estate, is very often a value of similar real estate located in less prestige place.



## 5. Conclusions

For many last years they had written that: “one can say, that prices of real estate will grow and grow. Real estate will become a good investment of capital. Growth can be disturb by cycles of slight prices downfalls. In Poland, there is big lack of dwellings, many dwellings are devastated, and market suffers from lack of dwellings of suitable standard. One needs much time in order to supply demand at dwellings” [3]. It is visible, in the light of data presented in the paper, that such statement has no any basis for contemporary real estate market in Poland.

Now, we entered into recession, world financial crisis and inflated to the limits of abilities prices of real estate, moreover determined by level of possible mortgage credits. They mainly were responsible for growing prices for 1 m<sup>2</sup> space of dwelling.

Yet, little number of dwellings included to luxurious, their irregular supply, mainly in “attractive” towns, have extremely high prices. As graph shows (Fig. 6) these prices are not consistent with common trends on real estate market. Similar trends for luxurious dwellings one can see within “old Europe” (for example Brussels and Paris) but of course on significant higher level.

Individuals purchasing luxurious dwellings are mainly the richest Poles and clients from abroad (mostly Poles living abroad). According to lists made by banks, most of purchased dwellings, which prices exceed a dozen or so thousands PLN for 1 m<sup>2</sup> space, is bought not for speculative purposes, but for living. To live in luxurious dwelling expresses and emphasizes social status and prestige of its purchaser.

It is difficult to make prognosis of prices of luxurious dwellings considering big amount of unexpected and elusive factors. Thus, it seems to be reasonable performing permanent examinations changes of prices of such real estate, by independent statistics centres. It will enable to anticipate changes of prices of real estate and analyse trends on real estate market. Especially researches, made within long period of time, with consideration of possibly broad set of parameters of luxurious dwellings, which top prices significantly differ from medium prices on market, will enable draw conclusions determining these prices.

As it seems, without detailed researches one can only say now, that on “crazy” prices of luxurious dwellings influence:

- location of dwelling,
- standard of furnishing dwelling,
- profitable placement invested in dwelling,
- snobbery and habits,
- simplification in managing business,
- patriotism of purchaser.

Yet it seems, that the most probable, but not entirely perceptible factor, influenced on prices of luxurious dwellings, located in prestige places of big towns in Poland and in the world, is their location.

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