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Small is beautiful?

A NUMBER OF DEVELOPERS IN POLAND ARE NOW OFFERING SO-CALLED MICRO-APARTMENTS SIZED FROM AS LITTLE AS 14 SQM. COULD SUCH TINY UNITS, NOT FORMALLY RECOGNIZED IN THE COUNTRY AS RESIDENTIAL PROPERTY AND PREDOMINANTLY TARGETED AT BUY-TO-LET INVESTORS, BECOME POPULAR WITH BUYERS?

The micro-living trend, known in some of the well-developed property markets around the world for some time now, could soon emerge in Poland, with a number of micro-apartment projects currently under construction in the largest cities across the country. Will the smallest of the micro-units, which Polish law

does not even define as housing units, attract much buyer attention? Experts are saying there is room for growth in the segment, but its exact potential is still difficult to evaluate.

A global phenomenon

Dantex is now developing its WolskaKwadrat project in Warsaw, which will include micro-apartments sized from 14 sqm. The company offers potential buyers the possibility to sign an agreement with an operator who will take care of the management and rental of the units. Ochnik Development has also recently launched construction work on its Studio Centrum scheme in the Polish capital, which will comprise 85 micro-apartments. The smallest of them are sized 14 sqm.

Maximilian Mendel, a partner, transaction advisory, at REAS, pointed out that micro-apartments or micro-units are a global phenomenon, and are mainly offered in high-density and expensive markets where buyers or tenants are very price sensitive. Developers in Asia, in particular, embraced the micro-living trend early on. "In densely built-up Tokyo small units have been the standard for a long time now, while the trend is relatively new in the US and in Europe in modern times," Mendel said.

No single definition of the product in question exists. In Poland, where regulations call for apartments to be sized at least 20 sqm, developers have been applying the term "micro-apartment" to refer to a number of various products, including hotel rooms. "Legally, micro-units sized below approximately 20 sqm are not recognized as dwellings in Poland," Mendel noted. This means that one cannot register permanent residence in such units and one has to pay a higher, 23 percent VAT rate for them, instead of the regular 8 percent rate applicable to apartments.

Of course, you can still live in a micro-apartment, you can rent it out and you can sell it. In fact, although there are situations when such units are bought for owner-occupation, buy-to-let investors account for the majority of the purchases, Mendel said. Indeed, developers themselves admit that micro-apartments are a typical investment product. Ochnik Development has revealed that more than 70 percent of the apartment purchases in the company's Studio Centrum project are made for investment purposes.

Slawomir Horbaczewski, an economist and real estate market expert, argued that micro-apartments can be an attractive alternative for students, as well as for professionally active people who because of their dynamic

and intensive lifestyle spend most their time outside home anyway. "Micro-apartments can be an attractive investment product for those people, as they require a relatively small financial outlay and can easily be sold when the professional or life situation of the owner changes," Horbaczewski said.

Room for growth?

The micro-apartment segment should see further growth in Poland in the coming years, although units of this kind will likely remain an interesting niche and will not account for a significant part of the market. Ewa Przeździecka, the sales and marketing director at residential developer Unidevelopment, argued that even if micro-apartments were legally recognized as a residential product, the attractiveness of such projects for developers and apartment buyers alike would not be obvious.

She pointed to the relatively high construction costs of micro-apartment projects. If such schemes were to be treated in the same way as regular residential schemes, regulations would require developers to provide a parking space for each micro-apartment in the building, Przeździecka noted. She was also skeptical about the size of the demand for such product among both buy-to-let investors and those buying micro-apartments for owner-occupation. At the moment, Unidevelopment is not planning to put such small apartments up for sale, Przeździecka said.

Marcin Liberski, the marketing and sales director at developer Atlas Estates, argued that the company has seen a lot of

interest in the smallest apartments available in its projects. One of the ongoing schemes includes units sized from 25 sqm to 30 sqm, all of which have already been sold. "If we decide to plan apartments sized less than 20 sqm, the crucial thing will be ensuring the proper functionality of such units so that the right balance is struck between the small apartment area and the meeting of the expectations of potential buyers," Liberski said.

According to Horbaczewski, micro-apartments have a chance to catch on in the markets in Warsaw and in other large cities in Poland where there are many potential tenants and there is a constant inflow of new inhabitants. In those locations, the accommodation needs of the inhabitants will not be met for a long time yet so there will continue to be room for new residential supply, including very small units, even if the price per sqm of the smallest apartments is higher than the price per sqm of large apartments.

Investors may find the relatively low total price of micro-apartments attractive and it is that price that the developers of such units will certainly focus on in their marketing activities, Horbaczewski said. Also, Mendel said that the prospects for this market segment seem to be moderately positive. "The scale of the market for such products is difficult to assess. From the supply side, it depends mainly on the availability of land plots with the proper land use designation. When it comes to demand, the market still seems to have room for growth," Mendel said. ♦



Image: Ochnik Development