

Buying Guide

Why Poland?

Poland has managed to do a huge amount since it introduced a parliamentary democracy and free-market economy, but has managed to do most of it quietly and without having to shout about it. At the same time, it has been a great destination for investors over recent years, and still has plenty to offer both in terms of economic growth and cultural heritage.

The heady days of the 1980s, when the Solidarity movement of Lech Wałęsa was a constant thorn in the side of the Soviet-controlled Communist dictatorship, led to the country being one of the first to manage to throw off the chains of Soviet rule and declare independent elections, beginning the journey to rehabilitation on the global scene and a bright future.

The Third Polish Republic, as this most recent phase in the country's political history is known, has been characterised by growth. Free speech and human rights reforms have followed political progress swiftly, and Poland joined NATO in 1999. The transformation of the country took another significant leap forwards when Poles voted to join the EU, becoming a full member in 1st May 2004.

Popular property locations

The property market in Poland has been driven by foreign investment since the fall of Communism, when the new government saw it as the best way in which to encourage foreign direct investment into the country. While the market for foreign buyers has been active for some time, it is in the past five years that growth has really accelerated at an impressive pace. The government encouragement of foreign investors is set to continue, while there is a new market of Poles in the growing middle class who will soon be looking to become property owners themselves instead of renting.

Warsaw remains the most popular destination for investment buyers in Poland, with most of the foreign direct investment and the institutional investment channelled through the capital city. Located just east of the centre of the country, Warsaw is on the Vistula River, some 200 miles from both the Baltic Sea and the Carpathian Mountains. The old town, now a UNESCO Heritage Site, has been preserved for the future, but the city suffered terrible damage from being occupied by both the Nazi and the Soviet forces during the Second World War. As a result, many families were forced in prefabricated housing after the end of the war, when many of the ugly concrete blocks, which have been the norm of housing stock in the Eastern Bloc throughout the Communist era, were built.

Many of the damaged buildings of historical significance in the old town have been restored, and there are now developments of new apartments coming along to replace the concrete towers. Property investment in Warsaw can be split into two categories. The first is apartments in the best city districts that are purpose-built to be let to foreigners coming to Warsaw to work for one of the multinationals for a set period and who demand a quality of living similar to what they have at home. The second potential market for buying property in Poland is to buy smaller and more modest apartments in the districts where local workers settle, in order to let them to workers who are inevitably drawn to the capital. Although the returns on



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these properties may not be as exciting as more 'executive' apartments, the rental could be steadier and more reliable.

Tourism in Warsaw is increasing due to the frequency and affordability of low-cost flights, with many people visiting on long weekend breaks to see the history and culture the city has to offer. This is the third potential market for overseas property investors, offering an alternative to hotels for visitors, while property owners can charge more for short-term lets than they can for longer contracts.

As the economy in Poland develops, along with the property market, there are more property investment options beginning to come to the fore. New areas are beginning to be publicised and economic growth has started to spread across the country, which allows more choice in the market, as well as the potential for high growth rates to continue.

These 'second-tier' cities are becoming increasingly popular as investment choices as tourists, businesses and low-cost airlines are discovering the potential for growth, and the local economies are beginning to expand quickly as a result. Chief among these are cities like Wroclaw, which has seen growth in the number of buy-to-let projects available for overseas buyers. Low-cost airlines fly directly to the city, economic growth is high, and the employment opportunities are good, making Wroclaw a great investment for the medium to long term.

Other cities that are benefiting from their 'second-tier' growth status include Poland's second city, Krakow, which has 75 per cent of its citizens under 45 and lies in a government-designated 'Special Economic Zone'. Katowice, with a population of over three million, is said to be Poland's sleeping giant, waiting for the extension of the local economy and the development that will go with it. Lodz and Poznan are also not to be overlooked as destinations for investment properties.

Legal issues

Foreign nationals are permitted to buy property in Poland, however there are some restrictions and hurdles to overcome, none of which should present too much of a problem to anyone looking to invest in the country.

The main thing to get organised is that anyone wishing to buy in Poland must gain the approval of the Ministry of Home Affairs in order to buy a property. The process for this is relatively simple and hassle-free, and there are a number of specialist solicitors who have now set up specifically to help with this process due to the numbers of foreign investors who are buying in Poland.

This approval, once granted, is usually good for a period of six months. Should you not find the property you want or be unable to complete within this time, extensions to the approval are available.

It is extremely important to keep in mind that should a buyer attempt to go ahead with a purchase without this permission, the contract of sale will be void, and all deposits will be lost. The property will also go back on the market for others to buy. Permission cannot be applied for retrospectively.

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There are also a number of areas where the buying of property by foreigners are prohibited. Most of these restrictions are in the areas of the Polish frontier, and it is important that your independent legal representative carries out the checks to make sure the property you are buying is not in one of the restricted zones.

Property buying procedures in Poland

Buying property in Poland is a simple and straightforward process, and as investors have been putting their money into the country in the form of real estate projects since the overturn of Communism, the procedures are well-oiled and run smoothly.

Once a property has been found and you have made an offer that is accepted, there is a preliminary agreement put onto paper for both parties setting out the offer and the terms of the agreement.

A deposit of between 10 and 15 per cent is paid to the vendor at the time of signing this initial agreement, after which the buyer has a set period of time to go away and raise finance. At the same time, the vendor is obliged to make sure they have clean and unobstructed title to the land and property in question, which must be submitted to the buyer.

At the time of the signing of the final contract of sale, the property will transfer ownership and be registered under the buyer's name. This occurs at the time set out in the original agreement of sale, and allows all of the completed conveyancing to be passed over. A new title is prepared and registered with the government, in accordance with the permission granted from the Ministry of Home Affairs.

Finance

How you finance your property overseas is one of the most important decisions you can make, and from an investment point of view, is one that can turn a successful venture into a failure just by getting the wrong mortgage deal.

Mortgages on property in Poland are available for foreign buyers, and for some it can be the most efficient way to purchase. Typical rates and loan-to-value ratios (LTV) are 5.6 per cent interest on loans of 50 to 70 per cent LTV, though some lenders will go to 80 per cent. Mortgages are typically granted over a 25-year period, and can be paid in Zloty, Euros, Sterling or US Dollars.

You may find it easier and cheaper to finance your property purchase from the UK, by taking out further mortgage lending on a property you own here. Cash buyers overseas are often in a stronger bargaining position than those with a mortgage, especially with resale properties, but make sure that you are not persuaded to pay over cash on a property which has been under-declared in value for the purposes of tax evasion. This is not only illegal, but will mean that you have to pay the difference yourself when you come to sell the property at a later date – a liability that you will not want to accept.

Property in Poland: Fees and taxes



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The costs of buying property in Poland are mostly taken up with legal fees and the transfer and registration of the property title with the government. Legal fees and transfer taxes will amount to around 2.5 per cent of the purchase price. At the same time, unless you are fluent in Polish yourself, a translator may be required in order to make sure you understand everything that is happening in the negotiations and discussions. These can be found through your solicitor or in the telephone directory, and cost around £30 per hour.

VAT comes in at seven per cent though this is expected to rise to 22 per cent in the near future, while the charges for your own legal representation and estate agency fees should be negotiated before signing any agreement.

One of the major advantages for buyers is that if a property is held for five years or more there is no capital gains tax to be paid on the sale of your property, giving investors a real incentive to stick with their project for the longer term.

Visas, residency and work permits

As a full member of the EU, it is easy for EU citizens to travel to and from Poland, and even settle there permanently. The migration of Poles to the UK has been well-publicised by most of the British tabloid press on numerous occasions, but it is just as easy for British investors to flock unhindered to Poland and buy up huge swathes of property cheaply.

Investment potential

Poland has been touted as the big story for property investment in Eastern Europe ever since it joined the EU in 2004, and it is easy to see why. The annual rate of growth in the GDP in Poland has been far above that of the majority of the rest of Europe for some years now, and that is set to continue as the focus of economic development switches to the 'second-tier' cities.

The abundance of poor-quality and depressing housing stock is one of the things that Poland is keen to change in order to leave behind the past and move into the future. The building projects happening in Warsaw and also the provincial cities is helping the country to mature and raising the expectations of the population. The development of the 'second-tier' cities is vital to keeping the country's economy heading upwards, while those looking for holiday lets and tourist properties are likely to find Warsaw still holds plenty of mystique for weekend travellers from the UK.

Finally, the improving economic conditions in Poland are leading to internal migration of unprecedented levels, as people move to the cities in order to take advantage of the new job opportunities that present themselves. Allied to this is the opportunity to take part in the newly-cosmopolitan way of life afforded by the influx of investment into the cities, attracting particularly the young to the urban areas. All of this increases rental demand.

Health



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The right to healthcare is provided for in the Polish constitution, and is funded by tax contributions within the state. All residents of Poland are entitled to free primary healthcare, while those visiting the country from the EU will be cared for under the same rules.

The standards of healthcare and hospitals in Poland are adequate, though many western Europeans will find standards a little below what they might expect at home, especially in rural areas, where emergency service may be a little lacking. Access to treatments is easy, with some pharmacies open 24 hours in towns.

Anyone not covered by a national insurance scheme accepted in Poland is liable at times to be charged cash on the spot for consultations and treatment.

Transport

With the proliferation of the low-cost airlines across Europe, getting to Poland from the UK is cheap and easy. The flights leave from numerous regional airports in the UK, and flights are cheap enough to make them popular with people looking for a budget weekend break and a different city destination to discover.

The public transport system inside Poland is also well-developed, with bus and rail networks between cities and an extensive road system. All of these appear to be well-maintained and have recovered from the ravages of Communism which often runs these modes of transport into the ground. Within larger cities there are often trams, and Warsaw also has a single-line metro.

And finally...

Poland has been one of the great success stories of the expansion of the EU. Economic growth means that it has been rapidly catching up with the rest of Europe, and social development has been progressing at an almost equal pace to bring Poles into the European fold. As the birthplace of one of the most impressive movements for change the world has seen, it is perhaps no surprise that the population was ready for the changes brought by European integration, and have embraced them whole-heartedly.

Some detractors have suggested that the time for investing in property in Poland has now passed, and that the smart money has moved elsewhere. While it is true that some speculators who are looking to turn a profit within months rather than years have moved to newer (and riskier) markets, there is still a good deal of investment potential in the market in Poland, and with the growth of the provincial cities now taking off, now may be the time to invest.

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