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## REAL ESTATE MARKET FUNCTIONS AND THEIR CONTRIBUTION TO ECONOMY

### Introduction

Real estate market transactions are critical for the national economy. No doubt, real estate rights form a vital sphere of human life, providing accommodation, employment, leisure, entertainment, etc. The pivotal role played by real estate transactions is also reflected in the macroeconomic developments. The reference to the functions of real estate and the definition of the real estate market is of paramount importance for consideration of real estate transactions. Furthermore, real estate market participants also play an important role, who become the principal regulator of the market through a variety of transactional activities.

### Real estate - concept and types

As Radwański points out, an object may be classified as either real or movable property, so it suffices to mention that we consider everything that is not movable as real estate (Radwański, Olejniczak 2013). On the other hand, a detailed division of real estate is provided for in Article 46(1) of the Civil Code of 23.04.1964 (Dz.U. 1964.16.93 with amendments), whereby real estate is divided into:

- land, which includes agricultural land,
- buildings,
- residential properties, that is parts of buildings.

Land “shall be a part of the earth's surface which constitute a separate object of ownership”. In accordance with this interpretation, two criteria must be specified which must be cumulative in order for land to be considered as such. First, the property must have limits and, second, it must have an owner.

Unlike land, buildings may be created under specific provisions. Interestingly, they constitute a derogation from the *superficies solo cedit* (Skowrońska-Bocian, Warciński 2013) principle. In other words, land is not

subject to spontaneous law, and thus the title to land coincides with another right to land (Nazaruk 2014).

Premises are 'parts of buildings which, by virtue of special provisions, constitute a separate object of ownership' (Nosek 2004).

The above detailed division of real estate clarifies the definition of real estate and making the image complete (Radwański, Olejniczak 2013).

### **Division of real estate**

The Polish legislator has not yet developed legal definition of the division of real estate. When dividing real estate, one should first of all refer to the views of the doctrine, which, depending on the situation, distinguishes the division:

- legal,
- land and mortgage register,
- administrative (also called geodetic or cadastral),
- *quoad usum* (division for use).

The legal division of real estate primarily involves modifications of the subjective aspect of the ownership rights. Hence, as interpreted in the Civil Code, legal division consists in all kinds of changes as regards ownership right to real estate, which precedes the separation of land plots and their different designation in the real estate cadastre.

The division of real estate as per the land and mortgage register is based on the severance from real property of at least two plots of land from the real estate, for which one land and mortgage register is kept - separate real estates, which will result in separate land and mortgage registers being established for each of these real estates. This process must precede the register division, as in the case of legal division.

The administrative division is governed both by the provisions of the Civil Code and the Act on Land and Mortgage Registers and Mortgages. The real estate may be composed of one or several cadastral plots, which are separately pointed out in the land and building register.

The *quoad usum* division is the one made between the co-owners. It is referred to as division for use. It can be contractual or judicial. Whereby, the extent is determined to which the co-owner can use certain parts of the property independently, while remaining in a co-ownership relationship (Durzyńska 2011).

### **Functions of real estate**

Real estate performs a number of different functions, depending on its intended use. Little doubt, they play an important role in everyday life (Małkowska 2012). It should be noted that the property can be used by the owner independently for its individual needs without becoming an object of trade. Nonetheless, it is not excluded from marketing, since it retains its nature as its value makes it marketable at any time. That will be the case where the property is

offered for letting or sale with a view to making a profit for its owner. Accordingly, the function of a property primarily derives from its value in use.

– **Collateral function**

Real estate represents a highly desirable collateral for loans and all kinds of borrowing. With land and mortgage registers being convenient vehicles for recording mortgage encumbrances, real estate is a very clear form of guaranteeing such liabilities. The buyer will be aware that the real estate it purchases is encumbered with mortgage debt.

– **Income function**

Just like any other thing, real estate can yield benefits and thus become a source of income for its owner, no matter whether it is used fully and exclusively for one's own needs. If the property does not provide the owner with income, its benefit is manifested by the owner not having to incur the costs that he would have to spend, for instance in respect of the lease agreement of area for use. The amount of income depends primarily on the characteristics of a particular property, the size and location being among the pivotal ones. Such features as the elements of its equipment and the conditions of maintenance are also essential.

– **Investment function**

Over the centuries, real estate has been viewed as a kind of investment to invest funds. This phenomenon is the most pronounced when inflation increases, which shifts focus on real estate. Obviously, real estate prices on the market will grow as a result. In such situations, property sales agreements can generate significant income from transactions.

– **Speculative function**

Acquisition of real estate in many cases takes only a speculative form. To engage in this practice, a speculator must be aware beforehand of how and how much the value of the property and its price can be increased. Change of agricultural land status into regulated plots illustrates this function of real estate in an optimal way. This is mainly the case on the outskirts of cities. Reclassification raises the prices of plots of land designated for sale for residential housing or urban service development.

– **Fiscal function**

Real estate is the property of both natural and legal persons and is respectively taxable with property tax in any state, of which a substantial part or all is allocated to the local government budget. This tax may come under different names and forms, but real estate is always its physical substrate.

– **Function of satisfying the demand for space**

In the literature this function is specified as one of the basic functions with reference to real estate. It concerns mainly built-up areas, such as office, residential, warehouse or retail space.

It should be noted here that particular functions of real estate may be subject to change. Properties may well perform several functions at the same time, depending on their intended use (Doganowski 2012). Obviously, the speculative and fiscal function feature the major risk of pathology. It is precisely with reference to these functions that a growing number of irregularities have appeared recently, in particular in the reclassification of plots of land to sell them.

**Concept of property market**

The literature does not define a single and universal definition of the real estate market, as individual authors attempt to define this term in view of other criteria (Konowalczyk 2014). Solely by way of illustration, it should be pointed out that the concept of the market may be reviewed from the historical, economic or spatial point of view. The real estate market, as an economic category, refers to the relationship between the buyer and the seller. Sellers represent supply, while buyers are referred to the question of demand for particular goods, including services and goods, which results in purchasing power. On considering the economic approach, it should be noted the market never acts as a trading venue that in this respect. The real estate market, as a spatial category, is an area with similar conditions of purchase and sale (Kucharska-Stasiak 2006)

Regardless of the above real estate market theories, the market should be formally and informally designated, which bears on the issues of real estate market trade at a later stage. Formal markets are institutions that formulate trade in goods in specially designated places, at a specific time with the determination of specific rules. Examples include tenders, fairs, stock exchanges and auctions. Informal markets, on the other hand, emerge when no trade organisers exist.

As follows from the examination of individual aspects of the real estate market concept, several definitions of the real estate market should be referred to. This is illustrated by the formulation of the market as a place of interaction between people involved in the exchange, sale, purchase or use of real estate. Alternatively, the real estate market is defined as business that results in the exchange of goods. In abstract terms, the term covers all real estate transactions throughout the country. The real estate market also includes contracts whereby

buyers and sellers meet to determine the price, which may result in a transfer of ownership.

According to the most comprehensive definition, however, the real estate market is a set of conditions which support the transfer of rights, and also agreements are concluded which shape mutual rights and obligations related to the ownership of real estate. Examining this definition reveals internal fragmentation of the real estate market, with the discernible investment market and lease market. The investment market sees a transfer of rights to real estate, while on the lease market there are contracts concluded which situate the rights and obligations of the parties coupled with the beneficial ownership of real estate. The definition presented in such a broad sense refers to a large extent to tradition.

It is notable that the real estate market does not have a statute or a permanent seat, as is the case with the stock exchange, and so we can conclude that it is an informal market (Kucharska-Stasiak 2006).

### **Place and role of the real estate market**

The market economy is a system of correlated markets sharing common features, such as supply, demand and price. The classification of markets is quite complex and based on contractually agreed criteria. To name a couple of the most common:

- criterion of the exchange subject,
- criterion of market players,
- spatial criterion.

In order to determine the place of the real estate market among the above conditions, the prerequisite concerning the subject of the exchange is of key importance. Referring to this criterion, we can point to the market of services, products, and money capital. Within the market of products we can distinguish:

- market of investment products,
- market of consumer products.

Within the money capital market, a distinction can be made between:

- money market,
- capital market.

However, in order to separate the money market from the capital market, two assumptions should be used, which are: the criterion of the time when funds are available to the financing entity and the criterion of the purpose for which the entity wishes to spend the obtained funds.

The presented systematics allows one to situate the real estate market within the product market, or more precisely: within the investment product market. This is indisputably determined by durability as a feature of real estate (Kucharska-Stasiak 2006).



### Concept of real estate trade

Referring to the definition of real estate trade, it should be noted that the scope of this concept represents a broad spectrum that can be considered in many planes. The definition is primarily contingent on the direction of consideration.

Provides the point of reference, that is when we talk about transfer of ownership or release into dependent possession on a legal act according to the principles set out in the Civil Code. Conversely, a broad definition of this term refers to issues pertinent to administrative decisions, court decisions or inheritance. A distinction should also be made between trade between private parties on the one hand, and between public administrations on the other. As regards the latter, the issue has been addressed more extensively and hence is not only covered in the Civil Code. Issues not specified in this legal act are included in the Act on Real Estate Management of 21.08.1997 (Dz.U. 1997.115.741 with amendments). The Act also classifies transactions in the field of real estate trade, among which the following can be identified:

- sale,
- lending for use,
- placement under permanent administration,
- letting, tenancy,
- encumbrance of limited rights *in rem*,
- placement under permanent administration,
- exchange,
- waiver,
- donation.

Most of the transaction are performed within the limits set by the civil law, while in some cases they relate to public administration, for which activity related to the public good is appropriate, that is by definition: for the common good, which also has a point of reference in real estate trade (Doganowski 2012).

Whereas the legislator failed to define economic trade from a legal perspective, the Supreme Court in one of its rulings (Order of the Supreme Court of 26.09.2012, II KK 234/12, Lex no 1220810) attempted to define the scope of this concept, observing that the concept of economic trade (which includes trade on the real estate market) should be interpreted broadly with reference to both professional and non-professional participants (Nitkowski 2014).

### Real estate market participants

The real estate market in Poland can be described as dynamic, respectively it is an area in which individual entities participating in the exchange are pursuing their relations. Obviously, the market could not exist were it not for its participants.

When classifying real estate market participants, we can identify such groups as:

- “entities creating supply in relation to rights to real estate,
- entities creating demand for real estate or space,
- market operators, which are required, or in most cases even necessary, for the real estate market,
- other players.”

The first category - entities creating supply in relation to rights to real estate - incorporates:

- An “owner of a real estate who aims to sell the real estate, makes a proposal to sell the real estate,
- property owners or their representatives-administrators, who provide the market with proposals to lease vacant space,
- real estate developers which invest in the growth of the real estate area with the intention of subsequent sale or lease,
- investors which build to satisfy their own needs, which, however, will provide the properties that have been in their possession or use on the market as a result of the new space”.

The diversity on the real estate market within the supply-side group consists in heterogeneity in this respect. The owners of developed and undeveloped properties are the point of reference, which support different intended use and show different technical condition. The supply in this respect is considered in three aspects: real estate, area, and rights and services linked to real estate. It should be noted that, in terms of sales, those are apartments that prove the most popular, whereas in the case of lease agreements, office, commercial or warehouse premises are predominantly leased. On the other hand, the issue of renting flats is relatively rare, this being surely attributable to a small number of flats for rent.

The group of entities reporting the demand for real estate includes: natural and legal persons - both domestic and foreign. These persons look for real estate for acquisition and for rent alike. As experience has shown, a great deal of diversity has prevailed here. One should not forget about entities that purchase real estate for investment purposes (Doganowski 2012).

## Summary

It should be emphasised that every property interacts with the so-called market environment. In this context, the definition of the real estate market, and enumeration of its specific features and links between its individual elements, appears essential primarily given the necessity of proper administration of real estate, and with a view to counteracting possible irregularities.

By way of reiteration, the notion of the market cannot be reduced solely to the analysis of sales prices and the number of concluded transactions, because the real estate market constitutes a whole, which incorporates all its elements,

including market participants, demand and supply, or the price of real estate. The assessment of the market should be made in a dynamic manner, on considering the changing conditions of market development.

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### **FUNKCJE RYNKU NIERUCHOMOŚCI I ICH ZNACZENIE W KSZTAŁTOWANIU OBROTU GOSPODARCZEGO**

#### **Streszczenie**

Transakcje podejmowane na rynku nieruchomości stanowią ważny element funkcjonowania gospodarki krajowej. Prawa dotyczące nieruchomości stanowią istotną sferę funkcjonowania każdego człowieka, Przekłada się to również na ukształtowanie obrotu gospodarczego w państwie. Pierwszorzędne znaczenie dla rozważań dotyczących obrotu na rynku nieruchomości ma odwołanie się do funkcji spełnianych przez nieruchomości oraz definicji rynku nieruchomości. Oprócz tego, istotną rolę przypisać należy także uczestnikom rynku nieruchomości, którzy poprzez podejmowanie różnorodnych działań związanych z zawieraniem transakcji, stają się głównym czynnikiem regulującym ukształtowanie tego rynku.

Pojęcia rynku nie można sprowadzać jedynie do analizy cen sprzedaży oraz liczby zawartych transakcji, bowiem rynek nieruchomości stanowi całość, na którą składają się wszystkie jego elementy, w tym uczestnicy rynku, popyt i podaż, czy też ceny nieruchomości. Ocena rynku winna być dokonywana w sposób dynamiczny, z uwzględnieniem zmiennych warunków, w których on funkcjonuje.

**Słowa kluczowe:** nieruchomości, rynek, obrót gospodarczy, funkcje, podmioty

**Summary**

Real estate market transactions are critical for the national economy. The real estate rights form a vital sphere of human life. The pivotal role played by real estate transactions is also reflected in the macroeconomic developments. The reference to the functions of real estate and the definition of the real estate market is of paramount importance for consideration of real estate transactions. Furthermore, real estate market participants also play an important role, who become the principal regulator of the market through a variety of transactional activities.

The notion of the market cannot be reduced solely to the analysis of sales prices and the number of concluded transactions, because the real estate market constitutes a whole, which incorporates all its elements, including market participants, demand and supply, or the price of real estate. The assessment of the market should be made in a dynamic manner, on considering the changing conditions of market development.

**Keywords:** real estate, market, macroeconomic developments, functions, participants

JEL Classification K1, K10, K11, K14, K19