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## Implementing transparency in an Eastern European office market: preparing Warsaw for global investments

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# Implementing transparency in an Eastern European office market: preparing Warsaw for global investments

## Introduction

- 1 The headline of the 2010 *Expo Real News* magazine, “Warsaw, the New York of the East”, indicates that Warsaw has been experiencing an enormous upswing in recent years, which has also been clearly visible on the office market. Dazzling office palaces built by star architects are shooting up and international investors are snatching them from the hands of the project developers. The face of the city has changed enormously in recent years and in the coming years the construction of a multitude of new skyscrapers is planned. Some of these new skyscrapers, for example the 282.4 m Kulczyk Tower, will even be considerably higher than the Palace of Culture and Science, the city’s 231 m landmark. Warsaw’s inner city is already being referred to as “Warsaw Manhattan” (The Warsaw Voice 2011). Warsaw’s extremely rapid development is reflected not only in the city skyline but also in the state of its economy. Poland was the only European country which was able to achieve positive economic growth during the worldwide financial crisis of recent years (cf. *Expo Real News* 2010: 6), a growth which particularly accrued to the Polish capital. Even today, with the European debt crisis about to reach its climax, the Polish economy shows no signs of being negatively affected (Pawlak 2011, Spiegel Online 2011). The strength is ascribed to several factors: EU-funds going to Poland, stable consumer demand within the country and weak ties of the Polish banking system to global financial markets (Becker 2009, Woś 2011). Nevertheless, recently cautious voices have emerged warning that Poland might yet be affected by the ongoing debt crisis (Watts 2012). Still, up to now the growing economy has made the Warsaw office market one of the most rapidly growing markets in the whole of Europe (Zdrodowski 2012).
- 2 This development is all the more surprising if we look at the city’s historical heritage. In socialist Warsaw there was no market for office buildings and even in the 1990s its development was still strongly influenced by the conditions of transformation. At the beginning of the 1990s it was above all the instability of the economic and political situation which prevented investments in property. Not until the end of the 1990s were there any signs of an international office market. With Poland’s entry into the European Union in 2004 mature international structures finally emerged on Warsaw’s office market, which today are entirely comparable with some Western European markets and make Warsaw the most important property market in Central and Eastern Europe. As a result of this change and the extremely rapid development of Warsaw’s office market in recent years, the question arises as to how this process of transformation to mature and international market structures took place. How could international investors recognise whether, and if so how much, potential lay in Warsaw’s office market? With what practices and as a result of what networks was the contextualisation of the property market possible, so that the investment risk was understood to be controllable and investments to be promising and highly profitable? How was information about the market processed, and what formats did this information have so that trust in investments in this market was created?
- 3 Although since the 1980s a large number of academic publications from various disciplines have dealt with the subject of the internationalisation of the property market, the question of the way in which international property markets function, of their practices and their logics, has been largely neglected. Whereas until now research has concentrated on the triggers of, the reasons for, and the extent of the increasing cross-border activities in the property market, this article seeks to make a contribution to the issue of how local property markets are integrated into international structures. Taking the example of Warsaw, it will demonstrate how the office

market, which was non-existent before 1990, has developed up to the present day and become international, and what practices were applied to enable international investments in Warsaw. The paper is based on 10 interviews with property consultants in Warsaw and Frankfurt (2x DTZ, Knight Frank, Colliers, Kancelaria Brochocki, Savills, Jones Lang LaSalle, 2x Cushman & Wakefield, IVG Immobilien). All property consultants are important players in the Warsaw market. We asked the interviewees about their working practices and employment history/career. In addition, the analysis takes into account 'grey' literature as well as Polish and Eastern European business newspapers (written in English). We use the literature to get insights into norms and standards applied in the consultancy business. All German readings have been translated in order to improve legibility.

## Conceptual background

With the increasing internationalisation of the property industry especially since the 1980s, the discussion of property markets in various academic disciplines has also grown. Early socio-economic studies reconstruct the process of development of local property markets and the driving forces for the internationalisation of property markets (e.g. De Magalhães 1999, Keivani et al. 2001, Keogh 1996, Keogh and D'Arcy 1994). Institutional structures, actors and their influence on the development and internationalisation of property markets have been examined (e.g. Ball 1994, D'Arcy 2009, Moricz and Murphy 1997, Scharmanski 2006, 2009). A major result is the analysis of the maturing of property markets, of constellations of actors in the transfer of knowledge and of the creation of behavioural guidelines. In particular the concept of 'property market maturity' (Keogh and D'Arcy 1994) represents a major contribution to our understanding of the internationalisation of property markets. Keogh and D'Arcy (1994: 219) identify characteristics displayed by mature property markets: central features are a full range of use and investment objectives, flexible market adjustments in short and long run, extensive market information and research activity, market openness in spatial, functional and sectoral terms and last, but not least, the standardisation of market practices and property rights. According to the authors, mature markets should not be confused with the neoliberal assumption of efficient or effective markets but instead implies that a market is open for participants in other asset and real estate markets. Adequate information and standardized property rights are available so that participants perceive the market as transparent and are able to evaluate its risks and opportunities. That means that the market is framed according to the understanding and practices of important participants.

However, these approaches cannot provide answers to questions regarding the way in which international property markets function, their practices and logics. Thus, the questions remain unanswered as to which logic and practices result in the emergence of international property markets and which practices are used – and how – to enable international investments. This gap is partly bridged by approaches which can be summarised under the heading 'social studies of finance' (e.g. Callon 1998, Kalthoff 2004, 2005, Knorr-Cetina and Brügger 2000, 2002, MacKenzie 2006, MacKenzie and Millo 2003). They place their focus on the "*examination of the professional knowledge of the actors, their practices and their analytical tools*" (Kalthoff 2004: 154). To date empirical results exist primarily for the financial industry; these can, however, also be applied to the property industry, especially in view of the increasing integration of the financial and property markets.

With regard to the question of the establishment of logics and practices which concerns us here, this research approach has made three major contributions (cf. Kalthoff 2004, 2005):

### - Economic knowledge

Whereas socio-economic approaches regard markets as given, the 'social studies of finance' examine how the way in which markets function is constructed and changed by economic knowledge (Aspers and Beckert 2008: 240). The question how knowledge about certain market practices, norms and standards is produced on local markets can be examined here. Studies of the knowledge economy which analyse the acquisition and transfer of highly specialised knowledge can serve to clarify this question, in particular studies dealing with the migration

of professional elites and the creation of global knowledge networks (e.g. Beaverstock 2002, French 2000, Sidaway and Bryson 2002).

### - Performativity

9 If it is assumed that markets are created by economic knowledge and theories, then the concept of performativity moves into the foreground. This concept has gained considerable importance in the 'social studies of finance' due, above all, to the work of Callon (1998), for whom markets are the result of the performative effects of economic models. Hence, it is "*economics which, as a scientific discipline, frames and formats the economy*" (Kalthoff 2004: 159). It should be noted, however, that it is not so much economists who create a "model world" through the generation of their theories but, rather, that markets are created by the application of theories and models by consultants and analysts. As noted by Berndt and Boeckler (2009: 543): "*Practitioners of sociotechnical economic disciplines [...] frame and perform markets by defining standards, surveying exchange processes, benchmarking goods, calculating prices and so on*".

10 With the concept of the performativity of markets we can examine how markets are socially constructed through the production and application of scientific theories and models. In this way we can analyse how scientific knowledge is implemented in education and training programmes, is translated into market practices and thus creates and influences economies (e.g. Callon 1998, MacKenzie et al. 2007).

### - Technical infrastructure and numbers

11 Related to the performativity of markets are the importance of technical infrastructures and their production of numbers (series), which have an influence on the realisation of economic activity. Kalthoff (2004: 169) points out the constituent character of technology, which creates the world by showing "*how objects are to be used and in what way things can (effectively) be ordered by means of technology*". Human actors lose their autonomous status, since their involvement with technical things "*thrusts a technically determined understanding of the social world*" on them. Kalthoff (2004) argues that the constituent character of economic calculation can be examined with the aid of these ideas. For example, the transformation into numbers enables the comparison of things which were previously incomparable, and calculations allow uniformity and commensurability. In this way "*relationships between things and practices are created which were previously non-existent*" (Kalthoff 2004: 169). Moreover, he points out that "*calculations are based on viewpoints and perceptions but also determine them*". The transformation into numbers gives them a new expressiveness, but at the same time they also lose informational content.

12 These approaches are helpful for the analysis of the changes on the Warsaw property market: with the concepts of socioeconomics we can analyse whether and how the Warsaw property market's process of maturing proceeded. The contribution of the social studies of finance consists in examining the importance of the market's practices and logic. Without practices on which a professional elite has agreed, and that are implemented by that elite, the comparability of markets cannot be achieved. This comparability, which is based on the transformation of social, political and economic conditions into numbers, creates a horizon in which investment decisions are made because the certainty of calculation has been established.

13 The following section examines the transformation of the Warsaw property market. The later sections deal with the way in which common practices and logics are constituted. This includes the specification of the actors who agree on common practices.

## **The transformation of Warsaw's market for office buildings**

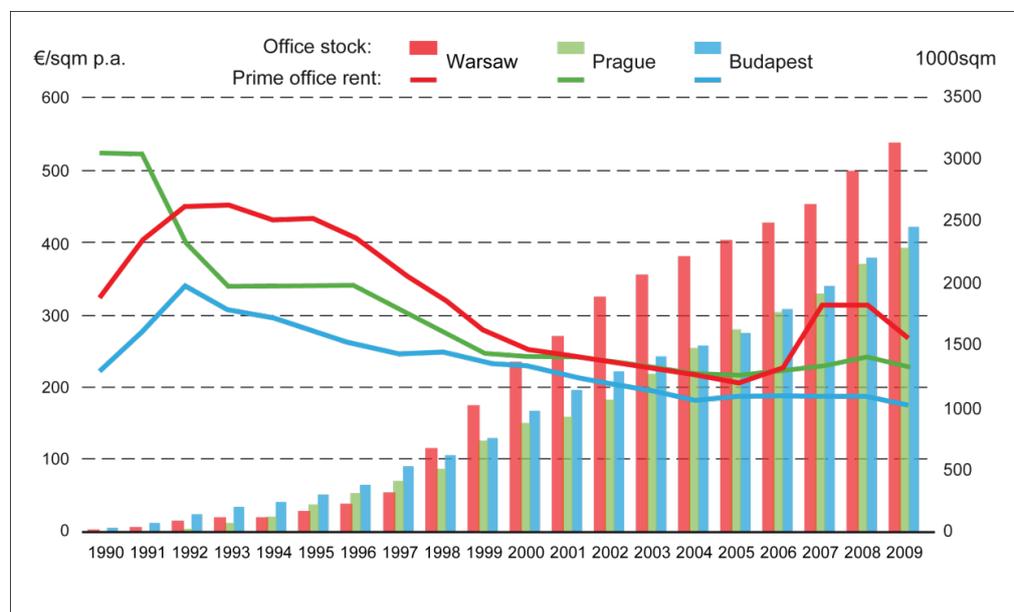
14 The transformation of Warsaw's office market, which has been taking place particularly rapidly in the last few years, can be divided into three separate phases of development. In socialist Warsaw up until 1989 no market for property existed and at the beginning of the transformation process in the early 1990s the development of the market was greatly hampered by the political, economic and legal situation. This period of transition was therefore

characterised by considerable tensions on the newly developing property market. It was not until the end of the 1990s that normalisation and the first signs of mature structures on the Warsaw market for office buildings could be recognised. Finally, since Poland's integration into the EU in 2004 there are signs of a rapid process of maturing and internationalisation, which have made Warsaw the most important Central and Eastern European property market.

## Transition

- 15 The early phase of development of Warsaw's market for office buildings was strongly influenced by the political and economic changes in Poland. In contrast to some of the other post socialist countries, in Poland the model for the transformation process was formulated unequivocally from the beginning. In 1990 the Balcerowicz Programme aimed at the "*rapid, comprehensive and far-reaching achievement of reforms*" (Koch 2010: 163) in order to swiftly create market economy conditions. These reforms resulted, however, in a huge reduction in real incomes and finally in a serious economic crisis at the beginning of the 1990s, from which Poland only began to recover in 1992. The economic upswing that followed also revived Warsaw's property market, since both domestic and foreign firms had demand for offices in the Polish capital (cf. Pütz 1998). This unprecedented boom in demand led, however, to extreme bottlenecks on the property market. Due to the lack of adequate office space, the demand could not be met. At the beginning of the 1990s the monthly prime rent for offices rose to €40 per m<sup>2</sup> (cf. Figure 1, in which the price per year is indicated).

**Figure 1. Prime rents and office space in Warsaw, Prague and Budapest, 1990-2009**



Source: Morawski (2010), modified by the authors.

- 16 Despite the enormous bottlenecks on the property market initially no new office buildings were constructed, which meant that the critical situation became even worse. The hesitancy to construct new office space was due to political and economic barriers linked to transformation, which Pütz (2001: 217) has described as an "*institutional gap*". Polish firms had neither an adequate supply of capital nor extensive experience in the construction of sophisticated office buildings. Foreign firms, on the other hand, were discouraged by the considerable bureaucratic and legal hurdles. A major problem was unclarified property ownership, which can still be found today. This had an inhibitory effect on the construction of new buildings. The first steps towards the reduction of these institutional hurdles were taken in 1994 with the EU Association Agreement, which included the adjustment of Polish law to prevailing European law. Further reforms as well as the greater political stability and legal transparency led to the increased presence of international firms. In addition, the regulations concerning the purchase of real estate were eased, which facilitated the construction of new office buildings (Pütz 2001: 218).

## Normalisation

- 17 A central turning point in the development of the Warsaw office market is the year 1997, when for the first time the annual increase in office space was greater than that of demand. With this “*transition from a seller’s to a buyer’s market*” (Pütz 2001: 218) a continual process of market adjustment began, which consisted in the gradual reduction of legal and bureaucratic hurdles. As a result, in particular foreign building companies and project developers became active and were responsible for the construction of new office buildings, which led to a rapid increase in the space available from the end of the 1990s onward. Between 1998 and 2001 alone the area of modern office space available increased from about 300,000 m<sup>2</sup> to 1,360,000 m<sup>2</sup>, a more than fourfold increase (Eurobuild 2001a), which resulted in a continual fall of prices for office space.
- 18 Although the vacancy rate reached a record level of 16 per cent in 2002, demand for offices continued to increase. This apparent contradiction between increasing demand and increasing vacancies can be explained by the difference between outdated and modern office space. The supply of office space which complied with the latest architectural, technical and efficiency requirements at that point in time was relatively small compared with that of outdated office space. Of a total available area of 3 million m<sup>2</sup> in 1998 the share of modern office space was a mere 10% (cf. Handelsblatt 1999). The technically outdated buildings of a poor quality originated not only from the socialist period but from the (early) 1990s, when many venturesome and inexperienced developers constructed office space on the basis of speculation due to the high demand: Warsaw became the ‘adventure playground’ of many builders lured by large profits (Eurobuild 2001b). With the construction of new, modern office buildings in attractive locations the diversification of the property supply began at the turn of the century.
- 19 Warsaw’s office market experienced a marked process of development from the mid-1990s onward and at the end of the 1990s, but even though in this second phase mature and international market structures were not yet in place. Although more and more international actors such as project developers, consulting firms, building firms and tenants appeared on the Warsaw market, potential buyers of the properties remained extremely hesitant. For one thing, investors continued to be discouraged by the relatively large legal and planning uncertainties, despite some positive developments in this area (cf. Handelsblatt 2002). For another, there still were not a large number of attractive, high-quality buildings, which are the primary investment objective of institutional investors.

## Internationalisation

- 20 A central turning-point took place in 2004 with Poland’s entry into the EU. The further reduction of institutional barriers led to political and legal stability, which meant planning security and the facilitation of procedures for foreign investors. The economic upswing as of 2005 contributed to the location of new firms in Warsaw and to the expansion of existing ones, which meant that demand for office buildings increased further. During this period vacancies fell to 2.9 % in 2008 and prime rents again increased considerably, following a 10-year downward trend (cf. Figure 1).
- 21 The new, optimistic, outlook on the office market also gave new energy to project developers. As of 2004 a wide variety of modern office buildings with high-quality technical facilities were erected both in the CBD and in the peripheral areas of Wola and Mokotow, which changed the face of the city enormously. Buildings such as the Zebra Tower and the Lumen are conspicuous because of their extravagant architecture. New skyscrapers such as Rondo 1 and the 220 m high Warsaw Spire, which is presently under construction, are shooting up in the CBD. The newly constructed buildings not only stand out against the older buildings because of their new record heights or their unusual architecture, but also because of their new qualitative standards: many of the new buildings are constructed on the basis of international standards of sustainability such as LEED or BREEAM and designed by famous architects.
- 22 In the course of these developments even risk-averse investors such as, for example, German open-ended real estate funds discovered the Warsaw office market as a promising investment opportunity. These investors’ activities are an indicator of the fact that Warsaw is perceived as

a low-risk investment market. The central requirements for this are that there is a stock of office buildings, which comply with international standards, that there is legal certainty and that the market is characterised by a high degree of liquidity, which ensures that an adequate number of users can be found and that profits can be increased. At the present time, mature market structures are in place which make Warsaw the most important Central and Eastern European market for office buildings. Warsaw is presently in the league of the most important European property markets such as London, Paris, Zurich, Frankfurt, etc. This strong position is due to the diversification of its property portfolio, to the establishment of international sustainability and building standards and to the unmistakable professionalisation of the market (availability and usability of information, legal security, etc.). In summary, it is a mature market with an acceptable degree of transparency.

- 23 But how was this maturity and transparency created? What are the practices, formats, and logics with the aid of which the actors communicate on the conditions on the Warsaw property market? This includes the question as to who the central actors are who accelerate the process of the maturing and internationalisation of the market.

## Global-local networks of property consultants

### Expansion strategies of international consulting firms

- 24 Although real estate investments have apparently become mobile in the course of the increasing integration of financial and property markets (Heeg 2004), they are nevertheless bound to their location and therefore dependent on specific national, regional and local conditions. Property investors therefore require specific information and knowledge about these markets. This is particularly true of markets which are characterised by opaque legal, institutional and political conditions. The financial crisis made it crystal clear that information is even more essential today because there are no fixed, stable, reliable values but that these tend to fluctuate according financial market dynamics. In order to reduce risks and make the best decision regarding investments, investors need comparable information and knowledge about the functioning and regulation of markets. Due to pressure from investors seeking the best opportunities for investment on a global scale and at the same time shying away from the risk of investment in opaque markets, the demand arises for transparency, professionalism and the comparability of property markets in order to be able to make investments which are considered secure (Heeg 2010).
- 25 Several recent studies point out the central importance of international property consulting firms in this connection (e.g. D’Arcy 2009, De Magalhães 2001, Dörry and Heeg 2009, Scharmanski 2006). International property consultants collect information on local markets and locations, prepare reports and analyses based on this information and distribute these worldwide. In addition they offer a wide variety of other consultancy services, e.g. concerning the renting and leasing, or buying and selling, of property; project development; financing; and the management of property portfolios. They are thus active at the interface between international and local actors and interests and therefore function as a central link between local and international markets (cf. Dörry and Heeg 2009). International property consultants not only have at their disposal contacts to global actors such as project developers, investors and users (as global firms with worldwide networks). Due to their local presence they also have specific market knowledge and contact to local decision-makers. They can therefore mediate between the actors at both levels and transfer information and knowledge between them.
- 26 International consulting firms represent a critical “infrastructure” and work as a door opener because they enable investors and property developers to evaluate and decide on the profitability of certain places. In order to make such a “*local competency worldwide*” (Scharmanski 2006: 29) possible, consulting firms such as Jones Lang LaSalle, Cushman & Wakefield, CB Richard Ellis and Colliers have expanded, particularly since the 1980s. They set up local offices worldwide and thus established international firm networks (on the expansion strategy of international property consulting firms see e.g. De Magalhães 2001, Dörry and Heeg 2009, LaPier 1998, Scharmanski 2006, Thrift 1986). Through their

worldwide company networks the consulting firms can offer their international clients a transnational “*seamless service*” (De Magalhães 2001: 103).

27 In order for international property consultants to be able to fulfil their “*function as a central hinge*” (Dörny and Heeg 2009: 175), they must not only possess international know-how but they must also have contact to local actors and decision-makers as well as knowledge on the way in which local property markets function. They require specific local information on locational and market developments and on national and regional legal, economic and political conditions.

## Creation of global-local networks of consultants in Warsaw

28 At the beginning of the 1990s there were neither established practices and regulations nor functioning networks, nor were there any local consultants. A functioning (i.e., transparent) property market did not exist, as there were neither information brokers (i.e., creators of transparency) nor actors with a demand for this information such as investors or project developers. The corresponding structures developed in two waves in the 1990s and are closely connected with the expansion strategies of international property consulting firms. While the first consultants had already entered the market in the first wave between 1991 and 1994, a second wave began in 1997 when signs of a trend toward market maturity became visible and prompted further consulting firms to enter the market.

29 Although in the first years of the transformation process consulting services were neither really needed nor demanded, several international property consulting firms recognised an opportunity in the newly emerging property market and set up offices in the Polish capital. “*We saw the logical opportunity of going into hot new markets. It was the new Europe!*” (Interview 1). Among the first international property consultants that established their offices in Warsaw between 1991 and 1994 were Jones Lang LaSalle, Healey & Baker (now Cushman & Wakefield), Henry Butcher and DTZ. Normally new countries are opened up via merger with already existing, locally active consulting firms or brokers (Dörny and Heeg 2009, LaPier 1998, Scharmanski 2006). However, since there were no local consulting firms in Warsaw due to the lack of market structures, the only possible way of entering the market was to directly set up one’s own branches. As a consequence the new offices were run almost exclusively by expatriates, i.e., foreign professionals. In the first half of the 1990s access to qualified local personnel was limited. It was not only international consulting concerns, however, which recognised the new business potential in the property sector in the early 1990s and opened small brokers’ offices; a number of Polish businessmen did so too. “*Well, it was the beginning of the new age and new possibilities in our country. The market was absolutely empty, but there were hundreds of possibilities*” (Interview 3). Altogether the market at that time was largely unstructured and thus offered opportunities, but also risks, since there were no guidelines and no framework.

30 With the transition from a landlord’s to a tenants market in 1997 and with the increasing diversification of the market (cf. next section) the office property business prospered and consultancy services became more attractive to investors, users and project developers. More property consultants such as CB Richard Ellis, Savills, Colliers and Knight Frank saw an incentive to enter into the Polish market. Whereas consulting firms at the beginning of the transformation process were unable to access existing local knowledge and market structures, the consultants now had the opportunity to implement local knowledge through mergers and acquisitions (M&A) with existing firms or by employing experienced consultants. For example, CB Richard Ellis emerged from the amalgamation of the Polish offices of Henry Butcher and Gerald Eve. When it founded its Polish branch, King Sturge took on three consultants from Healey & Baker’s Warsaw office and implemented professional local knowledge and contact networks through these employees. Savills, when setting up its Warsaw branch, on the other hand, had recourse to a British manager who had already gathered experience on the Polish market in international property consulting firms since the 1990s.

31 Clear differences between the two waves of branch establishment in Warsaw by international property consulting companies can thus be observed. Companies that sought to enter the

market between 1991 and 1994 were unable to access local knowledge, information and contacts, whether through the acquisition of or merger with existing firms or via the enticing away of local professionals. Consulting firms that came to Warsaw after 1997 generally set up their branches in Warsaw by taking over, or cooperating with, already existing consultancies and experienced consultants, and were thus able to draw on existing knowledge and contacts. Altogether, the considerable importance of economic knowledge for the establishment of property consultancy services is evident here. International consulting firms seeking entry into new markets attempt to set up and establish branches using a combination of professional, international knowledge on the one hand and local experience on the other. Since knowledge, as opposed to information, is embodied in people, it can be implemented in Warsaw via the transfer of expatriates with considerable experience in other property markets. Knowledge practices and formats are thus imported along with the expatriates. These practices require knowledge as to how and when they can be implemented. They also require structured inputs, however, which are created in the work of the property consultants on the spot. Property consultants thus introduce practices locally and guarantee that the necessary information is processed and made available.

### **The professionalisation of property consulting in Warsaw**

As mentioned above, at the beginning of the transformation process there was very little need for consultancy services. There was neither an investment market nor was there any great demand for consultancy services in connection with the leasing or renting of office space due to the lack of modern office buildings, and even project developers were rather hesitant with regard to external consulting since the large demand made this service appear unnecessary. The branches of international consulting firms at the beginning of the 1990s were more akin to representatives' offices, i.e., they were more concerned with gaining access to the market than with the provision of consultancy services. Since the mid- to late-1990s, however, a visible process of development and professionalisation can be observed among the property consulting firms in Warsaw.

### **The emergence of local professional elites**

Since the mid- to late-1990s more and more project developers and firms looking for office space discovered the advantages of external consultancy services. As a result, not only the number of international consulting firms grew but also the spectrum of services they provided. The reason for this was to be found in the increasing demand for office space, which made the business attractive. But also the problems with regard to property rights, to the question of profitable locations, binding standards, marketing of office space, legal status of contracts etc. contributed to the property consultants' enjoying an increasing esteem. An enlarged market offered opportunities to diversify and specialise the offered services. Yet at the same time the wide range of services was also a response to the increasing demands of clients. Nowadays the consulting firms in Warsaw offer the complete spectrum of services, from consultancy in the letting and leasing, and buying and selling, of buildings, through research and consulting, to asset management. DTZ, for example, was set up with three employees in 1994 and in the early years accomplished only two project developments in Warsaw. In 1998, the company already had 50 employees and today, with more than 250 employees, it is the largest international property consulting firm in Poland.

At the beginning of the 1990s it was mainly expatriates who were active on the Warsaw office market. Polish employees, who normally did not have a specific training in the property industry, since in Poland at that time there were no opportunities for training and education in that field, were therefore employed primarily as translators. This was necessary both for the communication between the headquarters of the consulting firm and local actors, and for the production and translation of analyses, reports and presentations. *“At the beginning, the people we were using for office agencies were translators. Today, if you go through all the development companies or real estate companies you will find many ladies in those agencies coming from literature education or translational education simply because you can communicate with them”* (Interview 1).

- 36 However, with the increasing maturity of the market and the establishment of consultancy services since the mid- to late-1990s Polish employees with the appropriate education make up an increasing proportion of the workforce. There are now a number of property-specific education and training programmes as well as the opportunity to acquire international know-how by studying abroad or through employment in the foreign branches of consulting firms. Therefore, today a large number of (highly qualified) Polish employees work in property consulting firms. Whereas in 1994 DTZ employed almost exclusively expatriates, today only five of the total of 250 employees are foreigners. A large number of management positions are also occupied by Polish professionals.
- 37 Altogether, in the last two decades local professional elites have emerged on the Warsaw property market. By 'local professional elites' we mean both highly qualified Polish workers and expatriates who came to Warsaw mainly at the beginning of the transformation process and have acquired highly specific local know-how. Local professional elites are therefore not only "transnational elites" (Beaverstock 2002, 2003), which are only temporarily employed in the Warsaw branches. To date, a number of expatriates have acquired a high reputation and highly specialised knowledge of, and contacts on, the Warsaw property market. They are usually employed in the management of international consulting firms or they have set up their own firms in the property industry.

### The establishment of international norms and standards

- 38 With the increasing establishment of international consulting firms in Warsaw, internationally valid norms, standards and practices also entered into the Warsaw property market. The following quote shows this particularly clearly: "*In 1990, it was the Wild West. There was nothing. There was no modern office space, there were no rules. But I would say over time the way of doing business is very much based on principles from the West. So, Western standards*" (Interview 5). While at the beginning of the transformation neither modern office space nor principles according to which property transactions took place existed, in the last 20 years Western rules and standards have entered into the Warsaw office market. The quote thus points out that a market is created only when certain principles are introduced. It also points out, however, where these principles come from.
- 39 The Royal Institution of Chartered Surveyors (RICS) plays a major role in this process. RICS is the most important European professional organisation for the property industry, "*which plays a central role in the professionalisation of the property industry by setting worldwide norms and codes of conduct in the field of market analysis and property evaluation as well as in education and study courses for the property industry*" (Dörry and Heeg 2009: 175). RICS can therefore be regarded as a "norm entrepreneur" (Finnemore and Sikking 1998), which draws up the international guidelines and regulations for the property industry. These are standards such as the Red Book, a binding document for the members of RICS with rules and guidelines for the evaluation of property, which is implemented internationally and is widely employed as a reference. In addition to guidelines such as this, RICS also imparts norms and standards as educational guidelines in specific courses of study. In order to become a member of RICS (MRICS), one must complete a course of study certified by RICS and pass a subsequent examination. This certified course of study teaches the participants specific norms and standards as well as theories, models and methods of analysis for the property industry. It imparts knowledge which sets parameters, establishes an expert language and at the same time opens the door to senior positions in the property industry for those who possess this knowledge and the corresponding certificates. RICS is therefore, on the one hand, the guarantor of certain standards and, on the other hand, contributes to the building of a community which shares similar principles, conduct and convictions. Professionals, who have done this study course and received an RICS certificate, transfer and implement the economic knowledge imparted by RICS by applying it to local markets and translating it into specific practices.
- 40 RICS is also active in Poland and at present there are 205 Polish RICS members, i.e., Polish property professionals who have completed a course certified by RICS (cf. RICS

2012). Interesting here is the fact that in Poland there are also independent organisations and certifications, and while RICS standards are not legally binding they are often requested by customers as an international indication of quality. *“Legally speaking, it [RICS certification] is not at all helpful. [...] In Poland we have our own certificates. [...] For example, I would not now be allowed to make an evaluation. The law in Poland states that you have to be a certified property evaluator to make an evaluation. But the strange thing is that banks would like to have an RICS evaluation. The best solution is therefore that the person who does the evaluation has both certificates”* (Interview 4). It is evident that norms and standards which are set by RICS act as international guidelines and that they create trust. That is why they find application on the Warsaw property market. Economic activity is only possible on the basis of norms and standards, since these make the contours of the market visible and comprehensible. Guiding standards constitute the practices of property professionals and thus the Warsaw property market. The performative character of economic theories is evident here.

41 Not only are codified rules and norms, such as guidelines and definitions, implemented in Warsaw, however. ‘Implicit practices’ are also of particular importance, such as, for example, ‘speaking a common language’. In spite of the high value placed on RICS, the managers interviewed do not regard an RICS title as an employment criterion but, rather, as a status symbol which signifies that the employees have a high professional standard. They also place a high value on certain ‘skills’ which the employees can only learn on the job. *“We just look at the experience they have at the end of the day. Not especially any studies they made before”*(Interview 1). *“It’s more important to have a common language [which you gain by] working here, speaking with competitors, doing transactions. Just by sitting here, you’re picking up the vocabulary”* (Interview 5). Language has a multiplicity of meanings here: it not only means the capacity to speak one or more languages, but above all the adoption of a certain understanding of problems, the ability to apply expert language in a meaningful way, a certain pattern of interpretation and certain social codes (such as dress codes and manners). The quotations illustrate that not only knowledge in the sense of specific theories and models works performatively, but in particular non-codified knowledge in the form of ‘speaking a common language’.

### Creation of comparability and transparency

42 At the beginning of this article we posed the question as to how Warsaw’s office market was integrated into international structures. We have been able to show that the central actors in this process were international property consulting firms, which have contributed, together with educational institutions, to the professionalisation of the property industry. But how exactly did Warsaw become an attractive location for international investors? What practices are behind this?

43 Since international investors look for profitable investment opportunities on a global scale, they require comparable market information. Property consulting firms have therefore made it their goal to produce international, comparable information and data on markets. A prominent example of these efforts is the Real Estate Transparency Index (RETI), which has been published every two years by Jones Lang LaSalle since 1999. The RETI classifies a total of 81 countries into five categories of transparency from “highly transparent” to “opaque”. The placing of markets into one of these categories is based on the calculation of their “transparency score”, an index which indicates the degree of transparency and is thus intended to serve as a basis for the decisions of international investors. This index is widely used in the property industry (cf. RREEF 2011) because it makes property markets comparable through their reduction to one number. Due to this quantification the RETI serves as an aid to decision-making as property markets can be compared as to their degree of transparency or risk.

44 The fact that the Warsaw property market has gained in transparency according to the calculations of the RETI can be seen in its development in the last few years. From 2006 to 2010 it improved from 2.76 to 1.99, and thus promoted Warsaw from the category “semi-transparent markets” to the category “transparent markets”. This promotion is due, among other things, to developments such as the founding of the Warsaw Research Forum, which

contributes to the increase in transparency and comparability of market information on the Warsaw market for office buildings. The Warsaw Research Forum was established in 2000 by the leading international property consulting firms CB Richard Ellis, Cushman & Wakefield, DTZ and Jones Lang LaSalle. The aim of these organisations was to establish uniform definitions and guidelines for the Warsaw office market, such as, for example, the definition of terms (e.g. “property portfolio”, “vacancies”, “rate of vacancies”, “prime rent”), the classification of buildings and the geographical demarcation of submarkets. These guidelines are not binding but they are nevertheless regarded by the majority of property market actors as guiding standards and are applied by them. Finally, the data collected in this way are used in (firm-internal) standardised calculations, statistics and analyses, so that they are comparable with indices for other markets.

45 One major indicator used by investors for their investment decisions is the (expected) yield. The calculation of yields is an extremely complex one, including various market indices which are in turn the result of preceding calculations. However, as the following extract from an interview shows, both the technical and the theoretical process of calculation as well as the actual information content of individual components of the yield lose their meaning. What counts is simply the calculated value and its usefulness for comparability and interpretation. *“For me it is less important how to calculate a yield. I want to know what a yield is, as a benchmark”* (Interview 5).

46 Another widely used instrument is the “office property clock” which was also developed by Jones Lang LaSalle. It is used as an indicator of the development and relative position of urban office markets. The clock is divided into four segments. The segments are ‘rents falling/falling market’, ‘rents bottoming out/bottoming market’, ‘rental growth accelerating/rising market’ and ‘rental growth slowing/peaking market’. Cities are placed at the circumference of the circle. Similar to the RETI it is easy to understand and to grasp the information – in case of the RETI the information is condensed into a number and in case of the property clock it is reduced to a position on the clock. In July 2012, Warsaw was in the fourth segment at 10 o’clock (Jones Lang LaSalle 2012). Both instruments offer orientation and enable investors and other real estate actors to compare markets at one glance.

47 It is evident that the creation of transparency and comparability by property consulting firms is the central objective in order to guide investments in property. The transformation of things into numbers and images creates internationally comparable market information which is used by investors as a basis for their decisions. Thus reliability, confidence and security are created. However, one should not confuse this with de facto security and reliability. All efforts on comparability and transparency have limitations and, as the financial crisis has shown, rest on past data which can fail to project future risk structures. The strength of instruments as RETI and the property clock lie in the compelling arrangement of images and numbers.

## Summary and outlook

48 Warsaw’s development into an international property market with clearly matured market structures was influenced decisively by the presence and activity of international property consulting firms. With the objective of creating transparency and comparability, these contributed to the growing adoption of international structures by the Warsaw property market in recent years. Starting from the assumptions of the ‘social studies of finance’, the performative character of indices, statistics, guidelines and models – in brief: of practices – for Warsaw’s office market became apparent. Whereas before 1989 no office market existed, a market slowly began to emerge in the course of the 1990s. International property consulting firms and their professionals, in particular, contributed to this by adopting internationally valid norms, standards and practices and implementing them on the Warsaw office market. Finally, their application led to the formation of international structures and to international investors regarding Warsaw as an attractive investment objective.

49 The results presented here are the interim results of an on-going research project. Further analyses are required to examine the role of actors such as project developers and investors in the process of internationalisation. Until now we have concentrated exclusively on the area

of international property consulting firms, which impart and implement international guiding norms, standards and practices. But it is also important to ask to what extent developers set standards and norms or how this is done by the construction of buildings according to certain sustainability guidelines such as LEED or BREEAM. Property investors and their practices in the choice of lucrative property assets must also be examined, as must the collaboration of actors in the process of the 'liquefying' of the property market.

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## Abstract

In the aftermath of an increasing integration of property and financial markets, the real estate industry is subject to soaring internationalization processes. Since international institutional investors appeared, transnational real estate investments have increased tremendously. In recent years, Central and Eastern European countries have been becoming more attractive to institutional investors and are therefore being integrated into international market structures. Within these countries, Warsaw emerged as the most dynamic and important real estate market. But what are the mechanisms and practices through which the real estate market of Warsaw becomes international? Which networks, intermediaries and frames are necessary to constitute a mature real estate market? The article argues that international real estate consultants are playing a crucial role in the underlying internationalization process. They are acting at the interface between investors, developers, construction companies and tenants and are therefore becoming a crucial hinge between real estate actors. With the example of the Warsaw real estate market we argue that international real estate consultancies are key drivers of the transformation process from a local to a global market. They transfer global knowledge, competence and practices and implement transparent and professional structures in the emerging Warsaw real estate market.

## Index terms

**Keywords :** calculation, knowledge, office market, performativity, Poland, transparency, Warsaw