



” Summary of the year 2020 on Polish housing market

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AMRON CENTRE ANALYSIS

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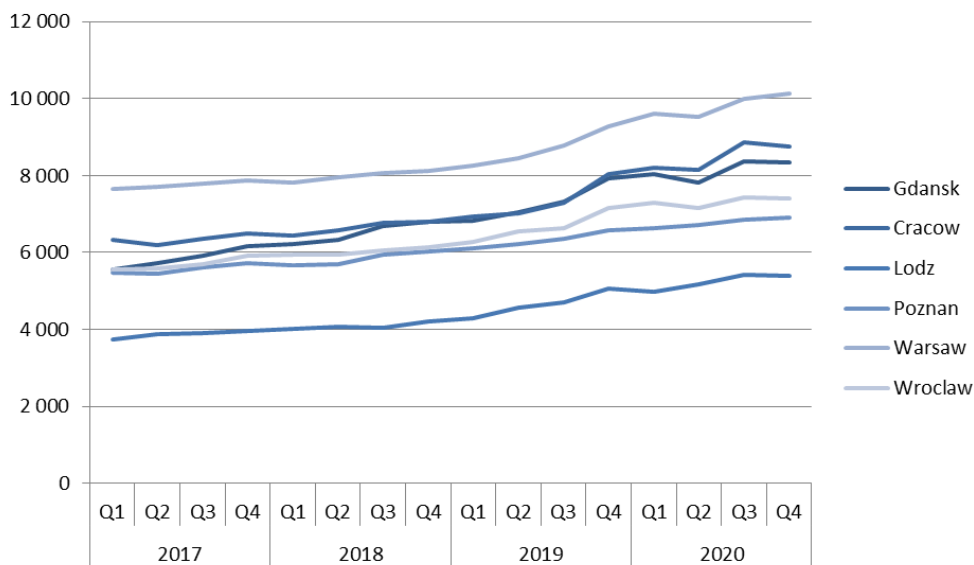


Despite disturbing information about the coronavirus pandemic threat that was coming from China, the beginning of 2020 on the real estate market in Poland was another period of growth. Demand for residential real estate remained high, mainly due to low NBP interest rates (reference rate at 1.5%), rising inflation and high price availability of housing. As a result, prices reached new records, flats were sold even within a few hours, the offer remained at a stable, high level and developers started new investments. Slowing economic growth was believed to be the main threat to the demand on residential market. Combined with high nominal housing prices, it was the source of expectations for a change in the market trend. At the same time, however, it was difficult to expect a drop of prices on the primary market, considering number of factors potentially significant for the housing construction costs. The most important of them were: Polish labour market condition and possible outflow of employees from the Eastern Europe due to opening of the German labour market, electricity costs increase, the situation on the market of land for multi-family construction or the amendment to the developer act forced by the Office of Competition and Consumer Protection with its possible financial consequences. In this situation, a decline in growth rate of housing prices and a reduction in development production with a consequent shift of some part of demand to the secondary market should have been expected rather than a significant reduction in prices. So far, however, prices continued to rise. At the end of the first quarter, the average price of a square meter of a flat in Warsaw was by 3.39% higher than in the previous quarter, in Cracow the increase accounted to 2.17% and Lodz was the only city, where a price decrease was observed – the average housing prices were lower by 1.61% than in Q4 2019.

The first case of the COVID-19 disease in Poland, recorded on March 4, changed the situation completely. The main role, apart from growing uncertainty about the economic situation, was played by further restrictions and prohibitions introduced by the government, including, in particular, the movement ban, in force since March 24, 2020. The first changes in the behaviour of real estate market participants were visible already in March. Traffic on sales websites was much smaller, offer prices did not increase as fast as before and the number of transactions slightly decreased. After introduction of travel restrictions, the real estate market practically froze. In April, realtors and developers reported a drop in the number of concluded transactions at the level of even 90%, which was largely a consequence of decisions made before the outbreak of the pandemic. Information about the situation on the market additionally encouraged people planning to buy a property to postpone their decisions and wait for further developments, hoping for a drop in prices. After lifting of a significant part of the restrictions, in the following months the activity of market participants started to increase, however, the number of sale contracts concluded in the second quarter was the lowest for many quarters. On primary market, the number of sold apartments decreased by as much as 64% comparing to the numbers recorded a year before.



CHART 1. AVERAGE PRICES OF 1 SQ.M. OF FLAT IN MAJOR POLISH CITIES



Source: AMRON System

Developers' performance was also significantly reduced. After a good first quarter that brought results comparable to those recorded in the corresponding period of the previous year, the number of flats, the construction of which started in April, was lower by 44.82%, compared to the number recorded a month earlier and amounted to only 6 181. The results recorded in the following month were just a little better (6 188 residential premises in May). Only June brought a clear improvement of the situation. Construction of 9 317 units was started then, but still it was a result significantly lower than numbers recorded before the pandemic. Similar trend was noted in case of permits issued for housing units' construction. In April, there were only 9 647 such permits, i.e. 30.44% less than a month earlier. In May, a slight improvement was observed (10 722 units), but the rebound took place in June, when developers obtained permits for construction of 16 620 units.

Under these conditions, lack of expected sharp home price drops was a certain surprise for some market participants and observers. With such a reduction in the scale of transactions, much larger changes in prices could be expected, resulting even from the obvious changes in the structure of the market. Meanwhile, during the first three months of the pandemic, prices in the largest Polish cities remained virtually unchanged. In Warsaw, Cracow and Poznan, changes in average housing prices, compared to the level at the end of the first quarter, did not exceed 1%. At that time, the highest dynamics was recorded in Lodz and Wroclaw - increases by 3.76% and 1.87% respectively. The average price in Gdansk decreased by 2.7%.

Apparently, the period of prohibitions and restrictions turned out to be too short to change the situation on the market in a significant way. Additionally, despite the deep decline in GDP, no significant increase in unemployment was recorded and the level of consumer optimism slightly increased after the April slump. Maintaining the high level of housing demand and in consequence – prices on housing

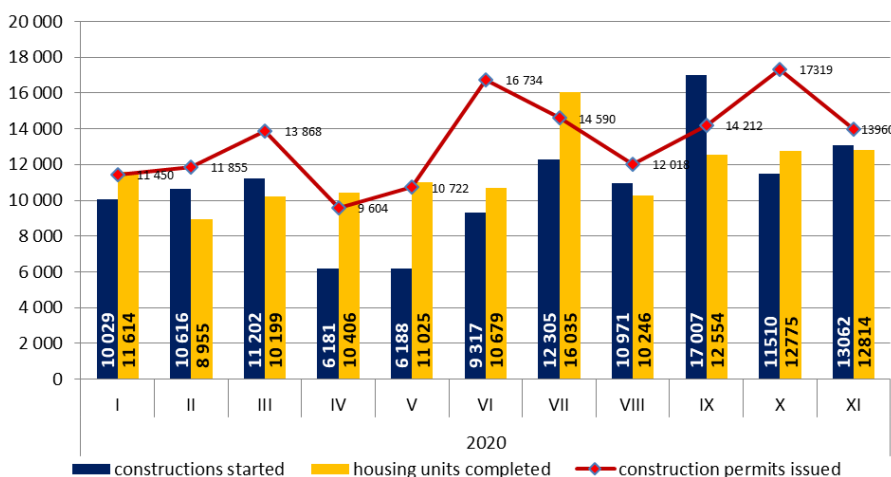


market, also resulted from a series of National Bank of Poland interest rate cuts, made on March 18 (to 1.0%), April 9 (to 0.5%) and May 29 (to 0.1%). In combination with slightly lower, but still worrying inflation at 3.3% in the second quarter of the year and announcements of reprinting money, limiting confidence in its future value, such low interest rates destroyed the sense and profitability of saving money on bank deposits. Therefore, it can be said that the Monetary Policy Council, with its decisions, sent Poles for shopping, including, perhaps primarily, purchases on the real estate market.

The turn of the second and third quarters of 2020 was a return to normality. Government's decisions on lifting the restrictions and repeated assurances about defeating the pandemic, dictated both by economic considerations and political calendar, caused a further, though slow increase in consumer optimism, visible in the indicators recorded by the Central Statistical Office, which effected with the dynamic activity increase of real estate market participants. The number of transactions concluded and the level of prices rose significantly. In the third quarter, significant increases in average prices in all major cities of the country were recorded. At the end of September, the average price per square meter of a flat recorded in Cracow was 8.77% higher than in the previous quarter, in Gdansk the increase accounted for 6.74% and in Warsaw and Wroclaw it amounted to nearly 5%. The lowest dynamics was recorded in Lodz, where the average price increased by 2.26%.

Developers also made up for the arrears from the second quarter. In Q3 2020, the sector set a quarterly record in terms of number of newly built apartments – 40 283, which was higher by 85.76% than in Q2 2020 and exceeded the number of 39 743 apartments recorded in the fourth quarter of 2019. The result achieved in September – 17 007 - was also the highest monthly number of newly built apartments in the history of Polish developers' sector. The number of apartments, for construction of which developers obtained building permits in this period amounted to 40 247, which meant an increase by 8.60% compared to the second quarter of the year. An increase was also recorded in the category of completed flats. In the period July - September there were 38 445 of completed housing units, i.e. 18.65% more than in the previous quarter.

CHART 2. RESULTS OF THE DEVELOPERS' SECTOR IN 2020



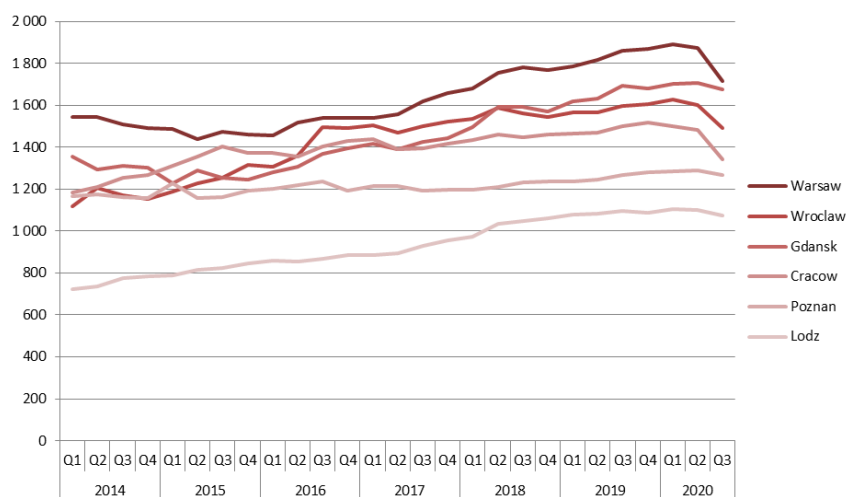
Source: Central Statistical Office



Dramatic increase in the number of infections, recorded at the turn of September and October, did not bring a fundamental change on the housing market. This time, market participants remained much calmer than in March and April, even if the number of infections, and thus the scale of the threat, was much higher. The nature of the measures and restrictions applied by the government was however different as well. As a result, the developers' sector results in October and November showed no significant impact of the pandemic. For all three indicators listed by the Central Statistical Office, the sector's results were comparable to those recorded in the corresponding period of 2019.

AMRON's data for October and November indicate that the housing market reacted to the autumn wave of the pandemic in a different way. Again, although to a much lesser extent than in April, the number of transactions fell and housing prices remained close to the level recorded at the end of the third quarter. At the end of November, the biggest change in the average price of a flat, compared to the level from September, was the increase recorded in Warsaw, which accounted for 1.44%. In the same period, prices in Cracow declined by 1.08% and changes in average prices in other locations did not exceed 1%. It could therefore seem that the housing market, unlike the construction market, is experiencing a repeat of the situation observed at the turn of the first and second quarter and the subsequent periods would bring the expected improvement. At the moment, it is still difficult to say whether this is the case, but it must be remembered that one of the main factors driving the demand for apartments in the recent period has been increasing share of investments for rent, i.e. investments in the sector of the housing market that was affected the most by the coronavirus pandemic.

CHART 3. AVERAGE MONTHLY RENT RATES FOR A FLAT IN SELECTED CITIES



Source: AMRON System

Remote mode classes at universities introduced in the winter semester and then extended for the next semesters (currently it becomes more and more likely that the return to the full-time mode of studies will only be possible in the winter semester of the next academic year), remote work system implemented by a significant number of companies together with restrictions in tourist traffic, resulting



in sharp decline in demand for short-term rental are the most important factors that contributed to the significant decline in rent rates, which was already visible in the second quarter of last year. At that time, however, these changes were still small - the average rent rate in Wroclaw fell by 1.5% compared to the first quarter of 2020, in Warsaw and Cracow there were drops by approx. 1%, while in Gdansk, Poznan, Lodz and Katowice the observed declines did not exceed 0.50%. A clear change in the trend was recorded only in the third quarter of the year. In Warsaw, the average rent for a flat was lower by 8.43% than in the previous quarter, in Cracow the decrease amounted to 9.56% and in Wroclaw the average rent rate was lower by 6.88%. Slightly smaller drops in rent rates were recorded in Poznan (1.63%) and Gdansk (1.91%). In addition, the pandemic caused much deeper, structural changes in the rental market, resulting from the necessary adaptations to the new needs of tenants, such as the need to live among people with a high level of social trust or the need to find a suitable place to work. Certainly, the situation on the rental market was an important factor, influencing the reduction of demand for investment purchases of apartments, both through a simple calculation of their profitability, as well as resulting from uncertainty as to the durability and effects of adjustment processes. There are many indications that the period of this uncertainty, and hence - its negative impact on the housing market, will continue for at least a few or even more months.



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