



” Rising inflation versus real estate

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According to the latest estimates of the Central Statistical Office (CSO), the rate of economic growth expressed in Gross Domestic Product (GDP) in the second quarter of 2021 was the highest in the Polish history. It reached as much as 11.1%, so we managed to make up for the pandemic losses. This was not the only record that our country has achieved recently, but unfortunately in this case there is no reason for optimism. Inflation is rising alarmingly and its recent rate is at the highest level for 20 years. In 2021, inflation ranged from 2.4% in February to 5.5% in August year-on-year. In addition, Poland is the second EU Member State after Estonia with the highest inflation.

CHART 1. YEAR-ON-YEAR CHANGES IN CONSUMER PRICE INDEX IN POLAND IN 2000 - 2021



Source: Central Statistical Office

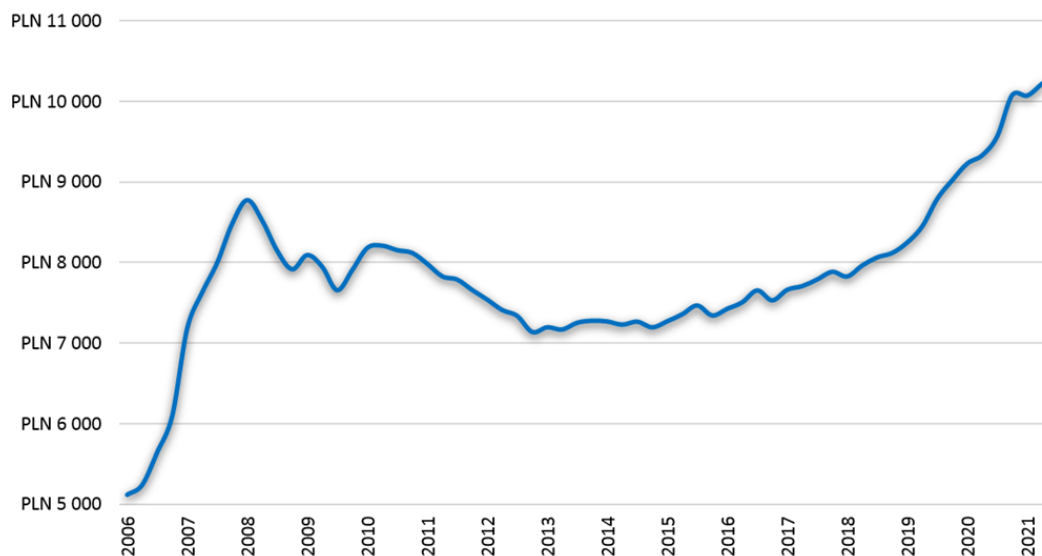
The inflation rate is influenced by many different factors. In the current economic situation, a significant increase in prices is caused mainly by the excessive money supply, which is called “the print of the zloty”. The most reliable measure of this phenomenon is the M3 index published by the National Bank of Poland. During the pandemic, the value of money supply at its peak reached PLN 1 746.22 billion (data for June 2020), which meant an increase of as much as 18.1% in annual terms. From March 2020, when the COVID-19 lockdown was introduced, until April 2021 the percentage increase in the amount of money in Poland was double-digit comparing to the previous year. Additionally, a decline in the rate of currency circulation of about 17% was observed. This means that money has been changing its owner more and more slowly, and this also has a strong impact on inflation.

In recent years, practically everything in Poland has become more expensive, including ‘basic necessities’ such as food, electricity and fuel. Considering the topic of this article, the most important question is how much the Poles’ expenditures on real estate market amount to nowadays and how this is affected by the increase in prices of other assets and products.



The most popular subject of trade on the real estate market are dwellings, the average transaction prices of which in 2019 have exceeded the peak achieved during the market boom in 2008 and still continue to grow. The chart 2 presents quarterly dynamics of changes in housing units prices in Warsaw from the beginning of 2006 until the second quarter of 2021, when the average price reached as much as PLN 10 224. The upward trend continues in all major cities in Poland.

CHART 2. AVERAGE TRANSACTION PRICES PER 1 SQM OF A HOUSING UNIT IN WARSAW IN 2006 - 2021



Source: AMRON-SARFiN

Analysis of rent rates has shown that the pandemic has contributed to slight drops, to the satisfaction on tenants and to the disadvantage of property owners. The comparison of data from the second quarter of 2020 and 2021 indicated that on the largest housing markets in Poland, the price decreases amounted from 6% to nearly 14%. In Warsaw, the average rental price decreased by 11% in the same period. The price reductions were mainly related to remote working and studying, which enabled tenants to move out of the big city and thus save on housing costs. However, the rental market seems likely to rebound and there probably will be a return to the pre-pandemic situation, provided that the government's COVID-19 restrictions will not be as stringent as they were a year ago.

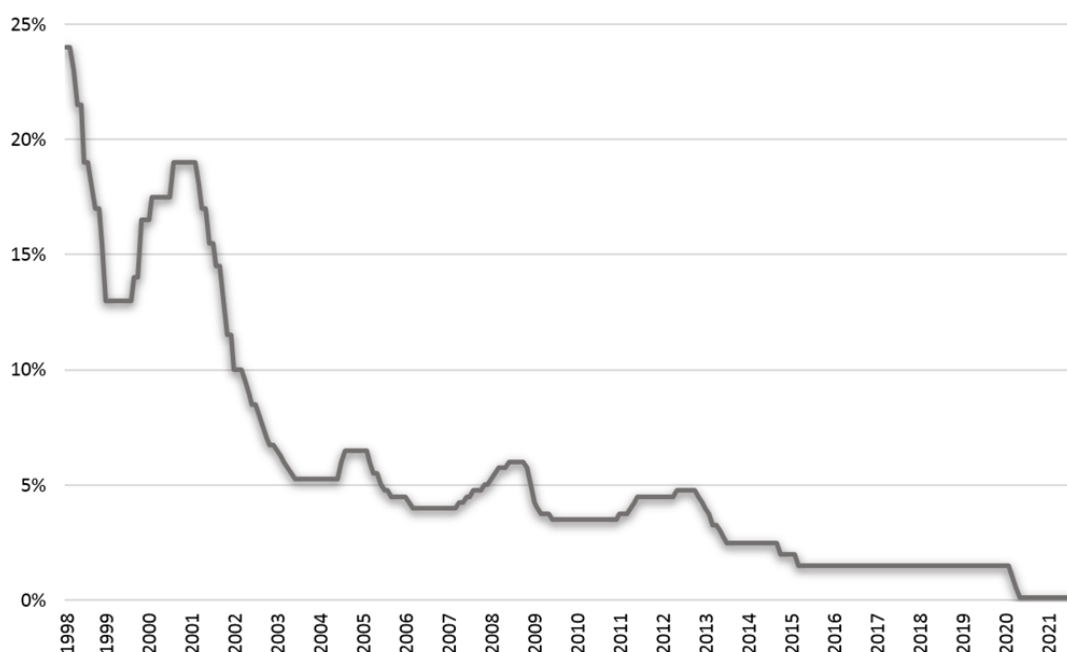
Dwellings are not the only type of property that is getting more and more expensive every year. Prices of single-family houses are characterized by even higher growths. According to the Bankier.pl portal, in the first quarter of 2021 the yearly increases ranged from 12.6% in Warsaw to 24.9% in Gdansk. Two-digit increases were also recorded in case of building plots. The increases occurred basically in all voivodships, with the highest ones in the Voivodeship of Podlassia and the Voivodeship of Lower Silesia. In the first half of 2021, average prices there have risen by 32% and 28% respectively as compared to the same period last year. In the Voivodeship of Mazovia, the increase amounted to 22%. The records on the real estate market are fuelled, among others, by high prices of building materials, which have doubled in the last year. This causes uncertainty mainly among consumers, whose earlier cost estimates for building a house or apartment renovation are highly underestimated and it is not known whether to postpone the investment and wait for declines in prices or spend more now but complete the planned undertaking. This uncertainty also applies to developers who explain the high prices on the primary market with the rising costs of materials and construction professionals.



It would seem that galloping property prices must cause lower demand on the housing market. However, this is not happening and in recent months the construction sector has achieved historically best results. Many investors admit that they are spending the savings gathered over the years right now due to high inflation and the lack of another, profitable alternatives to invest money. Investment in real estate is considered by Poles as safe and secure. Most believe that they will never lose money on a real estate investment and that prices will continue to rise or at least not fall for a long time. Such optimism can lead to a loss, but due to the lack of adequate financial knowledge to invest in the stock market or due to the inability to start a business, choosing real estate is a reasonable solution, provided that it is not financed by a large loan.

In a pessimistic scenario of constantly growing inflation, it may be necessary to raise the reference rate of the National Bank of Poland, which currently stands at only 0.1%. Such a low level translates to cheap mortgage loans, but it should be remembered that with a variable interest rate, the instalment will most likely increase. The question is by how much? It may come as a surprise for those borrowers, who are not aware of the risk, but for example with a loan amount of PLN 300 000 for 30 years, an instalment of PLN 1 150 and the standard bank margin of 2.15%, an interest rate rise by only 1 point percentage will increase the monthly instalment by about PLN 160. Such a remedy against the growing inflation is very likely to be introduced and it may significantly affect the wealth of Poles, just like loans denominated to Swiss Franc. Today hardly anyone remembers that 10 years ago interest rates fluctuated around 5%. Perhaps more expensive loans will temper the optimism on the real estate market. On the other hand, there are government's announcements on a new housing programme that will enable Poles to take a mortgage loan without any own contribution. Unfortunately, this may result in higher loan margins for loans taken by the programme's beneficiaries and this may lead to problems with future loan repayments.

CHART 3. REFERENCE RATE OF THE NATIONAL BANK OF POLAND IN 1998 - 2021



Source: National Bank of Poland



The most disturbing fact is that representatives of the Polish government, including the current President of the National Bank of Poland and Chairman of the Monetary Policy Council, Adam Glapiński, do not seem to care about the increase in inflation. They explain that we are catching up with Europe and Poles' earnings are also growing. However, it is not happening as fast as the price increase. In times of high inflation and low interest rates, citizens withdraw savings from unprofitable deposits and often invest money on the real estate market. It is undeniable that there is a correlation between the inflation rates and property prices but borrowers must be aware that they will most likely pay higher mortgage payments in the future.



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