



” Increases in prices of building materials
and their impact on prices of flats
and houses

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AMRON CENTRE ANALYSIS

March 15, 2022

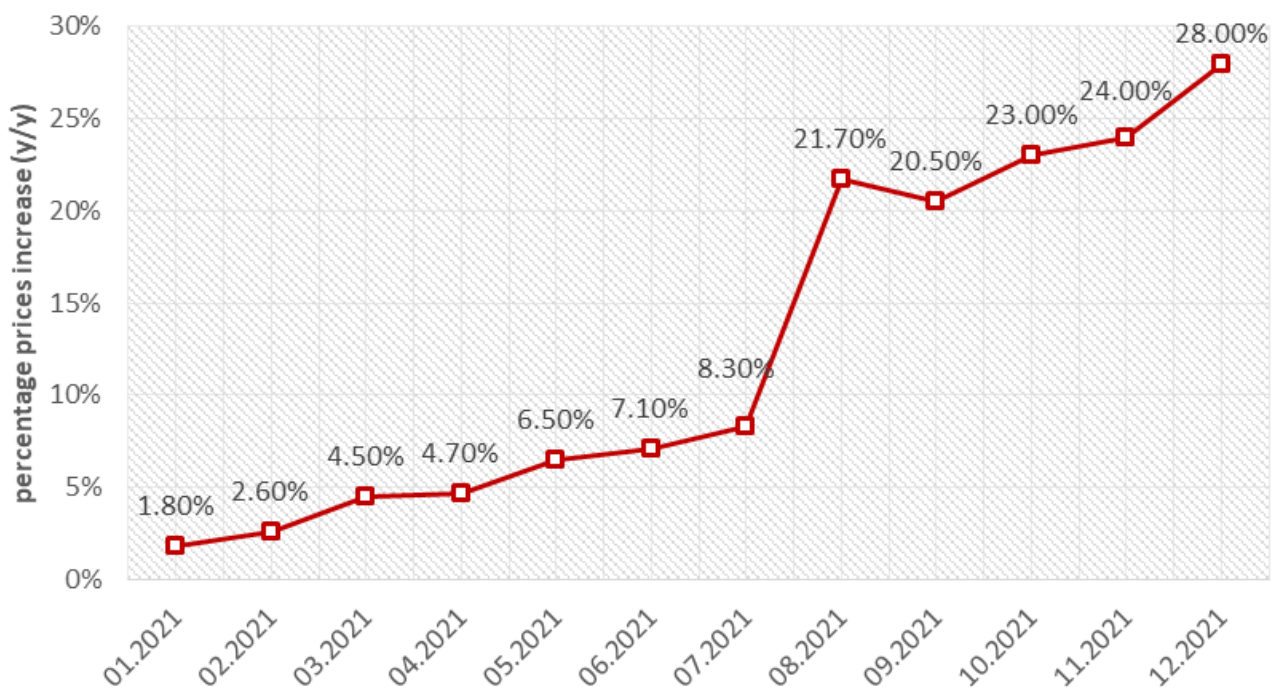




Construction costs of apartments and houses depend on many factors, such as technology, cost of building materials, cost of work, cost of a construction project, building area or standard of an apartment or a house. From year to year, construction costs increase, which is mainly caused by rising prices of building materials, an increase in employment costs and a low supply of investment land, and hence an increase in land prices. Therefore, rising costs incurred by developers have an impact on the prices of apartments and houses. The extremely high rates per square meter of a dwelling are also affected by the demand, which is large and unsuitable to supply, both from investors and consumers, who after the outbreak of the coronavirus pandemic began to pay more attention to housing conditions.

According to the reports of the PSB Handel S.A. Group concerning changes in prices of building materials and home and garden equipment, prices in the period of January to December 2020 compared to the same period of 2019 increased by 1.4% on average. The stabilisation of prices of building materials ended at the beginning of 2021. In January 2021, the average year-to-year prices increase amounted to 1.8%, and in the following months a significant prices growth was observed. The chart below shows the average year-to-year changes in building materials prices in the period from January 2021 to January 2022.

GRAPH 1. AVERAGE CHANGES IN BUILDING MATERIALS PRICES Y/Y



source: own study based on PSB Handel S.A Group reports; no data available for August 2021

In the first half of 2021, prices grew at a moderate pace, to reach incredibly high values in the second half of 2021. In January 2022, the prices of building materials were 28% higher than in January 2021.



In the report of PSB Handel S.A. Group concerning changes in the prices of building materials and home and garden equipment, in January 2022 price increases were recorded in all 20 commodity groups, which are presented in the table below.

TABLE 1. CHANGES IN PRICES OF BUILDING MATERIALS IN JANUARY 2022 (CHANGE Y/Y)

COMMODITY GROUP	PRICES CHANGE (Y/Y)
thermal insulation	68%
oriented strand boards	54%
dry building	54%
walls, chimneys	27%
roofs, gutters	27%
house surroundings	22%
waterproofing insulations	21%
installations, heating	20%
interior finishing	18%
garden and hobby	17%
lighting, electrics	16%
ceramic tiles, bathrooms, kitchens	16%
tools	16%
joinery	15%
furnishings, household appliances	14%
construction chemicals	13%
decor	12%
automotive	10%
paints, varnishes	10%
cement, lime	6%

source: own study based on PSB Handel S.A. Group reports

Three commodity groups: thermal insulation, oriented strand boards and dry building stand out from the rest with an extraordinary scale of growth, at the level of 68%, 54% and 54%, respectively. Cement and lime prices increased by 6% in January 2022 compared to January 2021. The mentioned increase was the smallest of all commodity groups. However, due to growing costs of obtaining permits for CO₂ emissions, limiting production by Polish companies and increasing import of these materials from countries outside the European Union, where CO₂ emission restrictions do not apply, we can expect the increase in prices also in this group.

Confirmation of PSB Handel S.A. Group's analyses are reports made by the Association of Façade Construction Contractors, which also underline the increase in prices of styrofoam and facade wool, belonging to thermal insulation. According to the analysis, a cubic metre of styrofoam in November 2020 cost PLN 100.00 and a square meter of facade wool with a thickness of 15 cm – PLN 30.80, while in November 2021 these prices were at the level of PLN 220.00 and PLN 58.50 respectively.



In 2021, there was also a very large increase in steel and glass prices, as well as the rising timber selling prices. In the statement of the President of the Central Statistical Office published in October 2021, the average selling price of wood for the first three quarters of 2021 was PLN 212.26 per 1 m³. In the same period in 2020 the price was PLN 196.84 per 1 m³. The increase in wood prices was a result of diminished supply of wood from the State Forests and increased demand from the construction sector, as well as from the large-scale wood-using sectors, such as furniture.

The rapid increase in prices of building materials had many causes. First of all this was due to a COVID-19 pandemic and 2020 economy lockdown, when the economy froze and orders for raw materials and building materials were significantly reduced. After reopening of the economy, the industry customers began buying up significant stock of materials to fulfil new orders. Increases in prices of construction materials were therefore a result of unfreezing the economy, increased demand and difficult imports of raw materials. Raw material troubles are being exacerbated by increases in gas, oil and electricity prices.

Prices of construction materials are rising, making it difficult for construction companies to operate. Increases will ultimately hit the retail clients. Construction companies with long contracts are forced to use their margins to cover the differences between their bids and the prevailing market prices. As a consequence, investments are becoming more expensive and the prices of flats, houses and commercial properties are rising.

Strong demand and low supply, rising land prices, high construction costs and the aforementioned increasingly expensive building materials cause the increases in property prices. According to the data in the statements of the President of the Central Statistical Office, the price of a square metre of usable floor area of a residential building in Q4 2020 was PLN 5 012, and in Q4 2021 - PLN 5 134.

According to the report of the Construction Calculators portal, costs of building a house to developer status in January 2022 were:

- approximately PLN 342 000 net - a single-storey house of 100 square metres,
- approximately PLN 410 000 net - a house with an attic of 140 square metres,
- approximately PLN 470 000 net - a house with a basement and attic of 195 square metres.

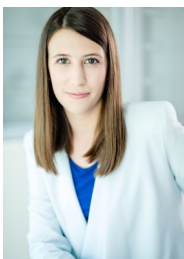
In January 2021 these costs were respectively: PLN 300 thousand net (14% increase), PLN 358 thousand net (14.5% increase) and PLN 412 thousand net (14% increase).

The latest AMRON-SARFIN Report highlights that the several increases in NBP interest rates, high and rising inflation and the political situation did not affect the stability of the housing market in Q4 2021 and housing prices in most major Polish cities continued to rise. The highest price increases in Q4 2021 compared to Q3 2021, reaching 3.34% and 3.20% respectively, were observed on the Wrocław and Warsaw markets. The average transaction price of 1 sqm of a flat in Q4 2021 in Warsaw was PLN 11 082. In the corresponding period of 2020, the price was at the level of PLN 10 081, so the annual



price increase was 9.93%. This was the lowest increase in average prices among the largest Polish cities. Cracow recorded an increase of 15.85%, Wroclaw - 13.42% and Gdansk - 13.14%.

Supply problems, high logistics and energy prices, and the new economic reality of inflation exceeding 9%, as well as increases in the NBP reference rate are causing difficulties in predicting prices of raw materials, building materials and apartment and house prices in 2022. The consequences of the war in Ukraine are also undefined and will certainly affect not only the raw materials and real estate markets, but all areas of life.



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AMRON Centre

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