



” Housing supply, demand and prices in Poland during the war in Ukraine

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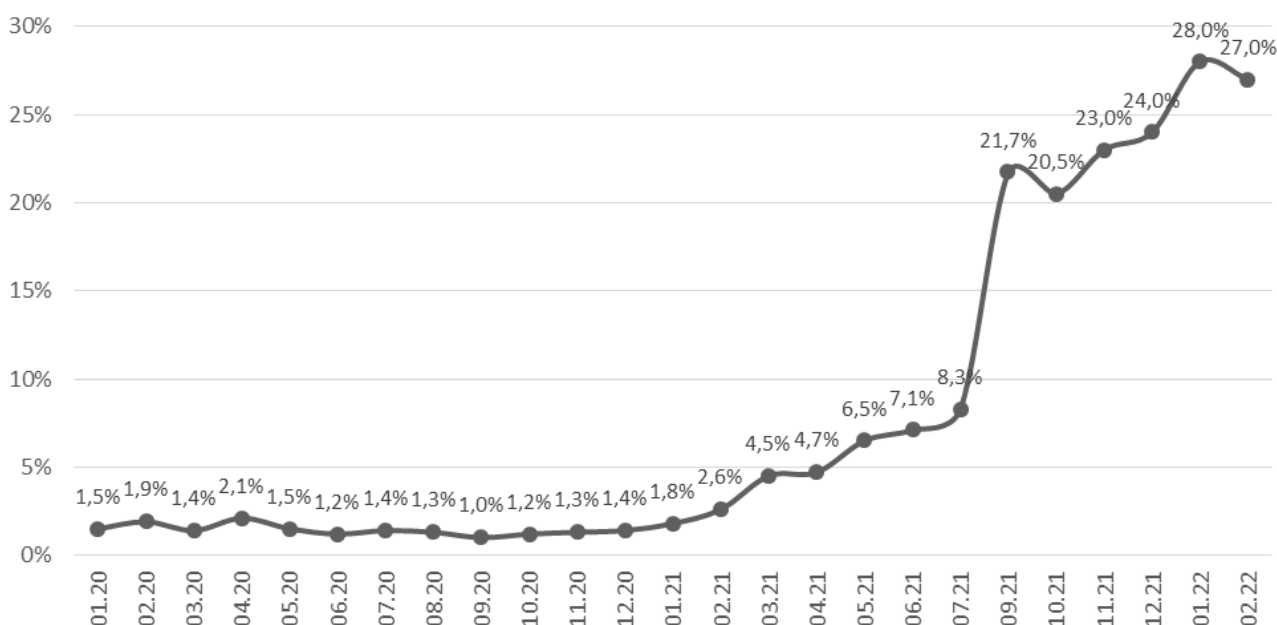


Poland is in a very unfavourable geopolitical position. The events taking place beyond our eastern border have a direct and negative impact on the Polish economy. In mid-November 2021, the migrant crisis on the border with Belarus escalated. Unfortunately, the situation is still tense and attempts to enter Poland illegally are still being recorded. On February 24, 2022, Russia invaded Ukraine. Since then, 2.415 million war refugees have arrived to our country (as of April 1, 2022). The consequences of these tragic events affect the most important branches of the Polish economy, including the real estate market, where changes are usually slower, but are already noticeable.

SUPPLY

The previous year turned out to be record-breaking for the construction sector, as since the 1970s the largest number of apartments and single-family houses were completed, totalling more than 235 thousand. In addition, approx. 212 thousand new building permits were issued in 2021, while more than 871 thousand apartments and single-family houses were under construction at the end of the year. The pandemic or high inflation did not stop the developers. Unfortunately, the beginning of this year is not very optimistic. According to the latest data published by GUS (Polish Central Statistical Office), in March the consumer price index reached 10.9% y/y, which was by 2.4% more than in February. The prices of building materials have been rising even higher and there is no indication that this trend will reverse. From September 2021, monthly rates of price increases have exceeded 20% y/y. In February this year, a 27% increase was recorded. An additional impulse for further prices increases will certainly be the embargo on the import of raw materials from Russia and Belarus. It is not only gas, oil or coal, but also wood, cement, aluminium or steel.

CHART 1. AVERAGE DYNAMICS OF BUILDING MATERIAL PRICES FROM 2019 TO 2022 (YEAR-TO-YEAR CHANGES)



Source: PBS Developer Group



Building materials account for the highest share of the overall construction cost of a residential property, but it must be remembered that transport and labour also become more expensive. Another problem is the insufficient number of blue-collar workers on construction sites. Ukrainians made up a significant part of such employees, but due to extensive military mobilization, they have left Poland. It is estimated that since the beginning of the war, about 30% of approximately 73 thousand Ukrainian construction workers left Poland. It is true that there is a huge influx of immigrants, but they are mostly women with children and they will not be able to fill the gap on the labour market. This can cause long delays in investments.

The last major factor that will affect real estate development activity this year is the reduction in bank financing of investments. Rising interest rates and the more restrictive lending criteria are the consequences of double-digit inflation caused, among others, by the war. According to the National Debt Register, the total debt of Polish development companies currently amounts to PLN 193 million. Compared to March 2020, the number of indebted entities in this sector has increased. On the other hand, their total debt has been decreasing for several months and is lower by about PLN 3 million y/y. Mortgage loans are no longer cheap and easily accessible, which can discourage many investors from starting new investments.

In these uncertain times, developers face further difficulties, such as constantly rising prices of building materials, delivery delays, less access to labour and more expensive mortgage loans. How will developers handle this year? During the COVID-19 pandemic, many experts were predicting a crisis in the industry, but it did not happen. This year, we expect problems with planning investment costs and greater delays in the construction of buildings. In January and February, a slight slowdown was visible as developers completed 6.5% fewer residential units than a year ago, according to GUS (Polish Central Statistical Office) data. Residential construction notifications also fell by 5.8%, while building permits were only 0.7% less. This allows us to make a conclusion that 2022 will probably not be a record year in terms of these three indexes.

DEMAND

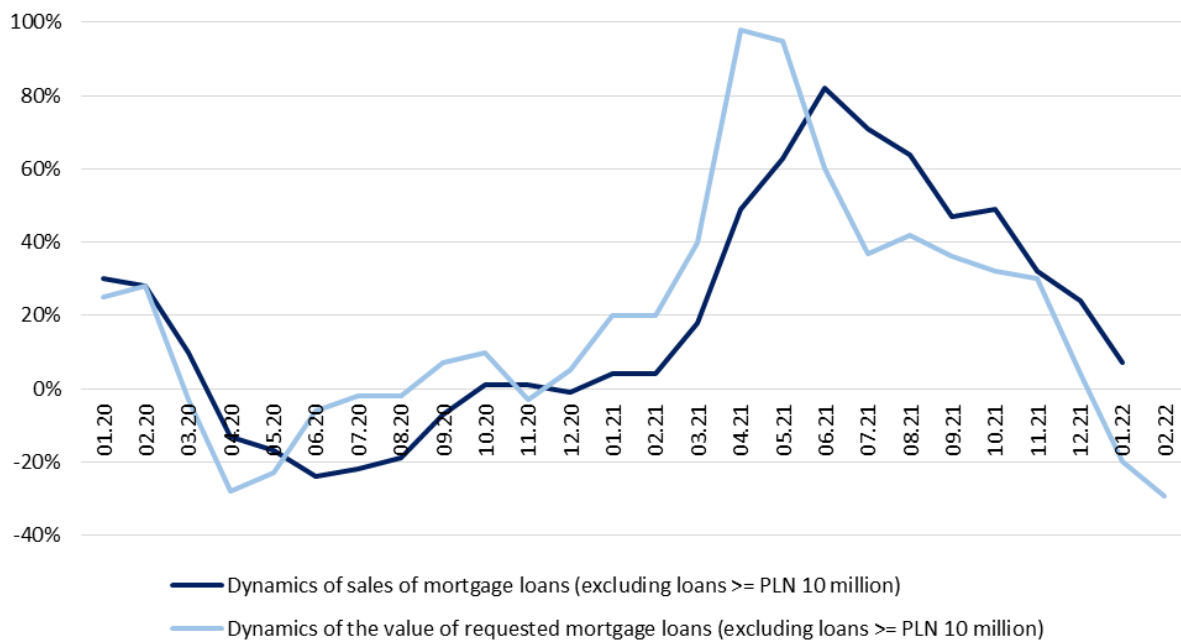
Among European countries, Poland ranks as one of the last in terms of the number of apartments per one citizen. According to various estimates, in Poland there is a shortage ranging from half a million and three million apartments. This deficit may even deepen due to the settlement of refugees from Ukraine in Poland. Only some of them find temporary shelter in Polish homes or in hostels. Most are looking for a place to live on the commercial market. The best solution for the beginning seems to be renting, but offers of apartments and rooms in large cities disappear very quickly. PKO Bank Polski S.A. published a report stating that the supply of apartments for rent has fallen in some cities by more than 70%. The biggest drops in the number of offers were observed in Wrocław, Cracow, Gdansk and Lublin. In Warsaw, this decrease amounted to over 50%. This can be a good signal for investors planning to buy premises for rent. Currently, the percentage of such transactions accounts for almost 50% in the largest cities. On the other hand, some foreigners, who decide to stay in Poland permanently, will purchase their own apartments. For years, Ukrainians have been the leaders among foreigners in buying real estate in Poland, and it will probably remain that way. According to analysts at PKO Bank Polski S.A., in the next few years the demand will increase by additional 230 thousand apartments.



The above arguments may support the idea that demand will continue to be high. In opposition, there are further increases in interest rates caused by the highest inflation in 22 years. In September of the previous year, WIBOR rate was close to zero. The decision of the Monetary Policy Council on the first interest rate increase in 9 years was made on October 6, 2021. Currently, the reference rate is 4.50% and further increases are forecasted in the near future to the level of 5-6% or even up to 8% in the pessimistic scenario. Borrowers experience more and more severe debt burdens on their household budgets and already pay instalments often higher by 1/3 than last summer. People, who think about taking out a mortgage loan, may hold back a decision in these uncertain times, hearing about the difficult situation of many Poles. Even if we are prepared to pay off an expensive mortgage loan, we may find out that the bank cannot give it to us, even if it was possible just six months ago. The creditworthiness of Poles has significantly decreased not only due to the decisions of the Monetary Policy Council, but also after the entry into force of the new version of the Recommendation S of the Polish Financial Supervision Authority.

From now on, more restrictive procedures are applied when determining the maximum mortgage loan amount, as it is necessary to take into account a possible change in the interest rate level by as much as 5 percentage points, which means that currently estimates should be made for 8.5%. The creditworthiness of bank customers may have fallen even by half from September 2021. The result is decreased interest in mortgage loans, which is clearly visible in the chart presenting the BIK index. The dynamics of sales and submitted applications has clearly decreased. The latest reading from February shows that the value of applied mortgage loans has decreased by 29.2% y/y. In case of sales, there has also been a downward trend since October.

CHART 2. BIK INDEX OF DEMAND FOR MORTGAGE LOANS (YEAR-TO-YEAR CHANGES)



Source: BIK

The towns located near eastern Polish border are also worth mentioning, where the fear of war effectively stops residents and investors from purchasing apartments and single-family houses. Real estate agents operating in these areas indicate the problems of the local markets as panic among clients and much fewer transactions.



PRICES

How the probable reduction in supply and demand pressure from refugees may affect housing prices? The most realistic scenario for 2022 seems to be a slowdown in growth of transaction prices in the largest cities, among others due to lower availability of mortgage loans. In the coming months, the annual increases may not be as spectacular as in 2021 and may not exceed the level of galloping inflation. The situation on the real estate market will be created by new factors and the war is cooling down the optimistic forecasts. When it comes to renting properties, the pandemic declines have been followed by a revival, because since February increases have been higher than in the whole last year. Analysts at PKO Bank Polski S.A. showed that since the outbreak of the war, offer rent rates in newly constructed buildings have risen by 33% in Wrocław, 26% in Kraków and 15% in Warsaw. Despite the fact that the real estate market is cyclical and some events can be predicted, it should be remembered that forecasts are uncertain and one should be cautious when estimating the risk of investment.



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