



” Impact of the Developer Guarantee Fund on the housing market

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On July 1, 2022, the act on protection of rights of buyers of residential premises or single-family houses and the Developer Guarantee Fund (DFG) entered into force. It ensures the protection of payments made by customers who buy flats or houses on the primary market, the sale of which started after 1 July 2022.

CHANGES FOR BUYERS

The law changes provide full protection for buyers of new flats or single-family houses. The principal of the DFG is similar to the Tourist Refund Fund – it guarantees return of payments made by buyers in case of:

- the bankruptcy of the developer and discontinuation of the investment;
- withdrawal by the receiver or the insolvency administrator from the contract with the retail customer;
- failure of the bank that keeps the escrow account and in case of deficient funds from the Bank Guarantee Fund (maximum guaranteed return from Bank Guarantee Fund amounts to EUR 100 000 per one customer per bank);
- the buyer's withdrawal from the contract (for example if the developer does not transfer the property ownership right within a fixed period or does not remove the substantial fault or defects), unless the client has already received his money back.

The main aim of a new law is the protection of buyers. The changes are to prevent abuses by developers and other entities and to strengthen the rights of clients. As in the Tourist Refund Fund - the dues are added to the price of the property, so at the end, buyers will have to bear the cost.

CHANGES FOR DEVELOPERS

The changes in law and establishment of the DFG relate to new flats, the sale of which has started from July 1, 2022. By the new law, developers must set up a special residential trust account for each new investment. In addition, developers are obliged to submit data on developer projects and developer contracts to the DFG within a specified deadline. Most important and controversial are contributions that developers must pay to DFG.

The amount of the DFG contributions is determined by the regulation of the Minister responsible for construction, spatial planning and housing.

The current contributions account for:

- 0.1% of each payment made by the purchaser if the developer accepts deposits into a closed residential trust account (the gathered funds may not be withdrawn by the developer until ownership right has been transferred to the purchaser);
- 0.45% of each payment made by the purchaser if the developer accepts deposits into an opened residential trust account (the gathered funds may be withdrawn by developer in tranches, after each stage of the project carried out in accordance with the investment plan).



For example, the DFG contribution for the full amount paid by the purchaser of a flat valued at PLN 500 000 amounts to PLN 500 (in case of a closed residential trust account) or PLN 2 250 (in case of an opened residential trust account).

The new rules will result in increases in cost of investments and the investment risk. In addition, there are also costs related to the reporting obligation to the DFG.

EFFECTS OF THE DFG ON REAL ESTATE PRICES

In 2020 and 2021, the situation on the mortgage and housing market and the achieved results were analysed with respect to the limitations related to the pandemic risk of coronavirus. In 2022, the real estate market environment changed dynamically.

The most important factors shaping the situation on both residential real estate market and mortgage market in the first half-year of 2022 were:

- arrival of a significant number of refugees from Ukraine (nearly 2.5 million people reached Poland by the end of March) as a result of the aggression of the Russian Federation in Ukraine. The inflow of refugees has fundamentally changed the situation on the rental market, putting strong pressure on rent increases;
- sevenfold increase in NBP interest rates from 1.75% to 6.50% (as of 8 July 2022);
- dynamic increase in the inflation rate - in June 2022, the consumer price index of the Central Statistical Office amounted to 15.6% compared to the corresponding period of the previous year the same period last year;
- a number of negative consequences of Russian aggression in Ukraine for housing construction, particularly with regard to the availability of labour.

In Centrum AMRON's opinion, transaction prices per square meter will continue to grow this year, although at a much slower pace than in the period from 2018 to 2021. Price increases will result also from higher construction costs, caused among others by rapidly rising inflation. Dynamically rising level of inflation and new tax rules under the Polish Order with its subsequent adjustments and changes, introduced uncertainty as to the future economic situation, as well as to the future income of potential borrowers and housing buyers.

In most of the largest Polish cities, increases in the average transaction price of 1 sqm of usable floor space continued, however with a much slower dynamic. The highest increase in the average nominal price, by 2.70%, was recorded in Warsaw, where the average transaction price in the first quarter of 2022 accounted for PLN 11 382/ sqm. The first decrease among the largest Polish cities was also recorded. The average price in Gdansk decreased by 0.44%. It should be noted that in none of surveyed locations the average prices increase exceeded the level of 3%. Taking into account the level of inflation recorded in the first quarter of this year (3.80%) it means that in real terms, the average prices of 1 sqm of apartments decreased in all analysed locations.

¹ AMRON-SARFiN Report 1/2022

² Ibidem



In the opinion of the Polish Association of Developers, the dues related to the DFG will generate an increase in prices of homes and flats by about 2%. The new rules apply to all companies in the developer sector, so that they will not affect the competitiveness of particular projects or undertakings. The increased costs of developers will definitively be transferred to the buyers. **However, due to the multiplicity of factors, which have recently shaped the market, it is currently difficult to determine how strong will be the direct or indirect nominal impact of the DFG on the prices of flats or single-family houses.**



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AMRON Centre

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