



” To buy or to rent - a real alternative?

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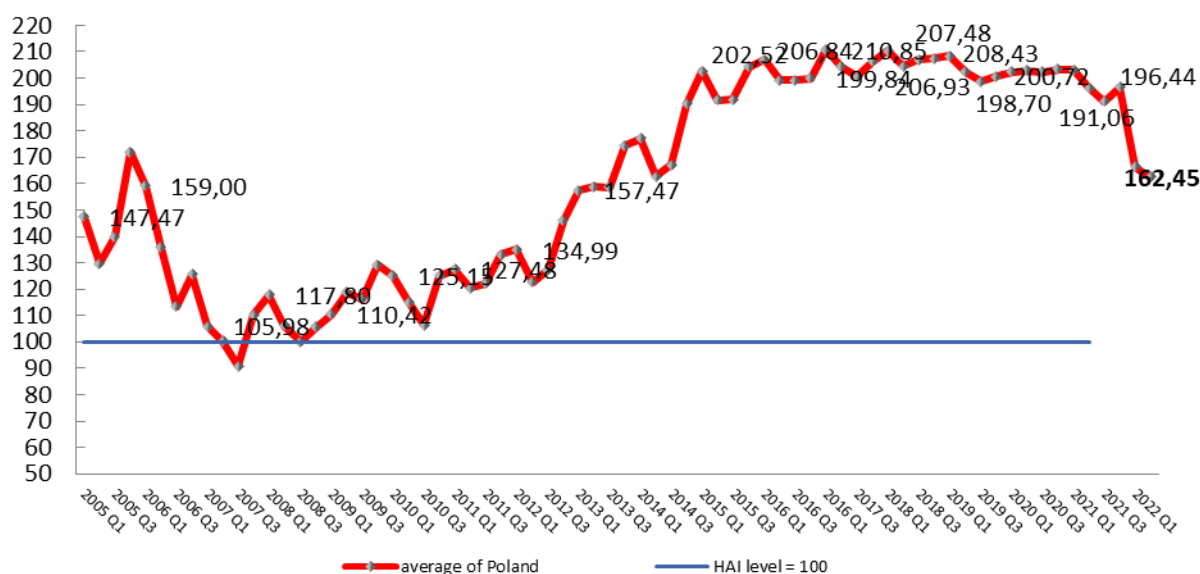
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Attempts to answer the question 'to buy or to rent' have been appearing in the publications of many housing market analysts for quite a long time. Naturally, the answer is not obvious. We all know pros and cons of both forms of meeting housing needs. Buying a flat, even when taking a long-term mortgage loan, is also a form of saving, investing owned or accumulated capital, building a sense of long-term stability and security, also in the context of having a source of permanent rental income. Moreover, in future this capital may be passed on to next generations. On the other hand, the purchase of a flat is associated not only with significant financial expenditures, but also creates a permanent obligation in form of the necessary maintenance costs. In turn, renting a flat offers the ability to adjust the size of the property, its location or the level of costs incurred to the current needs and financial capabilities of the tenant. It is also important that there is no need to incur long-term liabilities and demonstrate creditworthiness at the same time. All this, however, at the price of spending money purely for consumption, without the effect of capital accumulation. We are also aware that both forms respond to the needs of a slightly different type of consumers. Renting a flat will be a choice of those market participants, who do not want or do not have to decide on stabilization or for whom the rental is related to the necessity of satisfying a longer or shorter, but still temporary housing need. On the other hand, the purchase is going to be made by those, for whom a sense of stability is important.

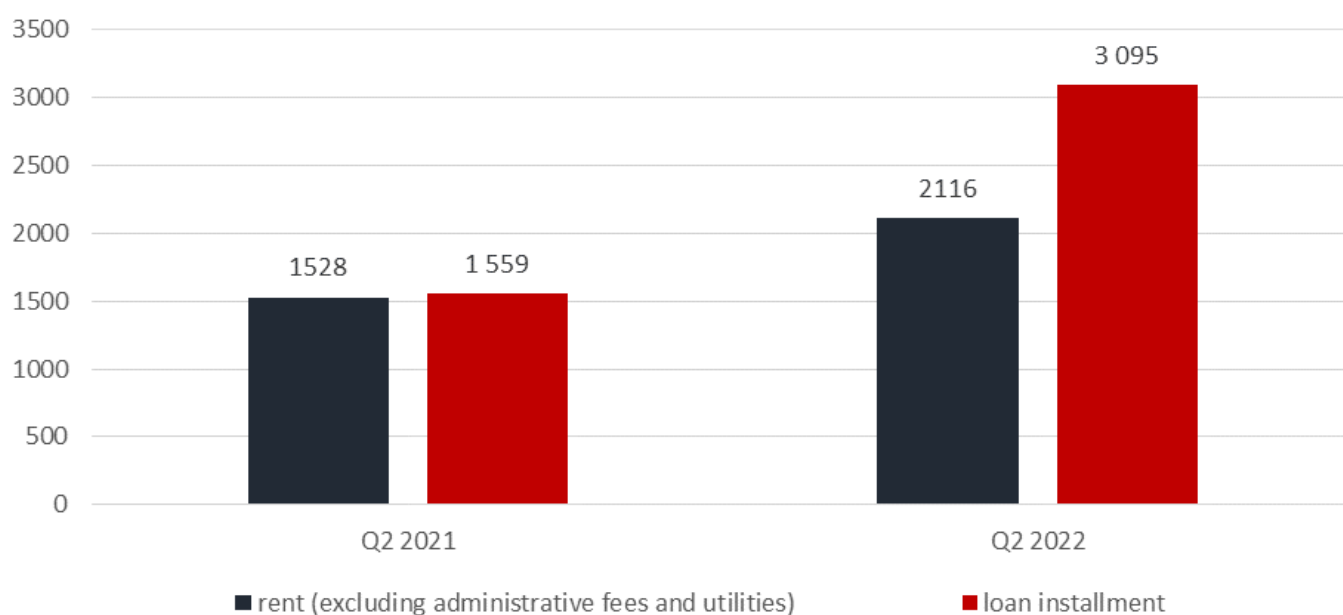
Dynamic changes taking place in recent quarters in the environment of the residential market significantly changed its structure. Increases in the interest rates of the National Bank of Poland - from 0.10% in October last year to 6.75% currently, along with rising inflation and amended Recommendation S of the Polish Financial Supervision Authority, obliging banks to take into account an additional 5% buffer for an increase in interest rates (also in case of fixed-rate loans), contributed to over 50% decrease in borrowers' creditworthiness. As a result, in a following quarters we have noted significant decreases in the number of newly granted housing loans. On the other hand, rapidly growing cost of living, together with rising prices of flats, resulted in a very marked decline in the price availability of flats to the level recorded recently in 2014, with the prospect of further declines in the coming quarters. This is indicated by the Housing Accessibility Index listed by the AMRON Centre.



source: AMRON



Despite increases in rents, such dynamic changes did not take place on the rental market. According to AMRON Centre's data, the average cost of renting a two-room apartment of a floor area of approximately 45 sqm in Warsaw in the second quarter of 2021 amounted to PLN 1 528 per month, obviously excluding administrative fees and utilities. With an interest rate of 2.48% (valid at that moment) and the flat price level (on average PLN 10 200 per square meter), monthly loan instalment was slightly higher and amounted to PLN 1 559. In the second quarter of 2022, after a fundamental change on the demand side of the rental market, resulting not only from students return to full-time classes, but also to the influx of a large number of refugees to Poland after Russia's aggression against Ukraine, the average rent for an apartment of this size amounted to PLN 2 115. Thus, the increase in rent rate during the year was 38.5%. At the same time, however, as a result of an increase in loan interest rates (up to 9.06%) and the increase in housing prices (up to PLN 11 300 per square meter), the instalment of a loan taken for the purchase of such a flat almost doubled (increase by 98.5%) and amounted to PLN 3 095. As a result, the difference between the level of rent and the loan instalment was almost 50%. This disproportion is shown at the diagram below.



source: AMRON

It should be noted, however, that this analysis takes into account both apartments from the most popular segment (two-room apartments with the floor area of about 40 sqm) and a loan taken for 25 years with LtV level close to 80%, which is also the most popular on the market (approx. 75% of all granted loans). Naturally, for loans with a lower LtV ratio, these differences will be smaller.



The 'to buy or to rent' alternative for a large number of the market participants seems not to be realistic any more. In current market situation, they simply cannot afford to buy an apartment and therefore rent remains the only possible choice. Still we should remember that a further increase in the demand for flats for rent will also mean further, perhaps quite dynamic increases in the level of rent rates, especially that in current situation we can expect a decline in the number of purchases of flats for investment (i.e. for rent), which have been so popular in recent years.



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AMRON Centre

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