

AMRON-SARFiN Report

on housing loans
and real estate transaction prices



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POLISH BANK ASSOCIATION

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Report in numbers

Q1 2013		change Q1 2013/Q4 2012
PLN 321.024 billion	total housing loans debt	1.48% ↗
1.738 Mio	number of active loan agreements	0.39% ↗
41 599	number of concluded agreements	12.46% ↘
PLN 8.017 billion	value of concluded agreements	9.34% ↘
PLN 189 027	average value of a housing loan	3.20% ↗
157.80	Housing Availability Index (HAI M3)	11 points ↗
50.66%	share of new housing loans with LtV above 80%	1.41 percentage points ↘
98.83%	share of new housing loans in PLN, by value	0.13 percentage points ↗
0.01%	share of new housing loans in CHF, by value	0.01 percentage points ↘
1.11%	share of new housing loans in EUR, by value	0.14 percentage points ↘
61.62%	share of new housing loans with lending period of 25-35 years	0.20% ↗
PLN 7 192	average transaction price per square meter of a dwelling in Warsaw	0.81% ↗

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Introduction – about the Report

– Jacek Furga, Chairman of the Real Estate Finance Committee, Polish Banks Association and Vice-President of the Management Board of the Centre for Banking Law and Information (Centrum Prawa Bankowego i Informacji Sp. z o.o.)*



Dear Sirs,

With a great pleasure I present you the newest, already fifteenth issue of AMRON-SARFiN Report, where you will find analyses of changes on mortgage and housing markets in the first quarter of 2013. Report is published by Polish Banks Association and developed by AMRON Centre basing on data gathered in AMRON and SARFiN Systems. Considering suggestions of Report's readers, we decided to enhance this issue by including new, but crucial information on mortgage lending parameters – the average margins levels and the average interest rates. We appreciate all your opinions and suggestions aiming to further improvement of the Report.

Due to already confirmed seasonal cyclicity of both mortgage and – what is more obvious – housing market, analyses presented in the Report refer to numbers noted in Q1 2013 in relation to numbers noted in previous quarter (Q4 2012), as well as to those of respective period of previous year, i.e. Q1 2012. Conclusions, however, are not much optimistic – Q1 2013 results turned out to be better than the results of ... Q1 2009. But from the other hand, no forecasts or predictions for last quarter did presume any recovery from the market slowdown observed constantly since half of 2011. Both number of new loans (41.6 thousand) and value (PLN 8.0 billion) were the lowest for last four years.

Analysis of changes in structure of loans granted in Q1 2013 from the perspective of LtV ratio, repayment period or currency prove that banks started to adjust the offer of mortgage lending to new

Financial Supervisory Authority's requirements included in almost finalised amendment of Recommendation S:

- share of new loans with LtV ratio at the level above 80% diminished by 1.4 p.p. and as for the end of Q1 2013 it amounted to 50.7%
- share of new loans granted for longer than 35 years did not exceed 1%
- loans in foreign currencies constituted 1.12% of the new loans portfolio.

In Q1 2013, declining mortgage lending results proceeded with concurrent decrease in housing development ratios. According to Central Statistical Office's data, number of issued building permits diminished by 23% and number of constructions started was lower by 31% than last year. Slight increase (by 2% comparing year to year) was noted only in number of housing units completed.

Changes in average housing transaction prices noted in the biggest Polish cities resulted from local determinants. The greatest decrease in the average price per square meter amounted to PLN 105 and it was recorded in Katowice agglomeration. At the same time prices increased in most of the biggest cities – the greatest increase (by PLN 75 per sq.m.) was noted in Gdansk. But still, it does not mean the trend change, but only price adjustments after the "Family on Its Own" Programme. Before termination of the Programme, transaction prices were adapted to binding limits and quite often some part of the housing cost was included in prices of parking lost or other additional premises.

Further decrease in housing prices in cities surveyed for calculations of the Housing Availability Index, decrease in interest rates levels of new loans granted in Q1 2013 related to economic recession and

diminishing reference rates, together with increase (by 1.43%) in the average earnings level per exemplary family resulted in increase of the HAI M3 ratio by 10.78 points comparing to previous quarter and by 22.81 points comparing to the ratio level noted in Q1 2012.

Despite progressive toning down the most restrictive requirements of Recommendation T or S, it is hard to observe the increasing interest in mortgage lending, both from the perspective of banks and purchasers. At the same time, number of housing purchase transactions financed without mortgage loan is increasing. Strong impulse from the government is necessary to make that mechanism working more efficient, for the benefit not only of potential purchasers, but also of the whole economy. Another substitutive solution like the

currently discussed “Flat for Youth” Programme will definitively not result as expected.

Are you interested in AMRON detailed analyses of Polish real estate market, please do not hesitate to contact us. We will also appreciate your comments, which shall allow us to improve next issues of the Report.

Please send your questions and suggestions to the following e-mail address: raport@amron.pl.

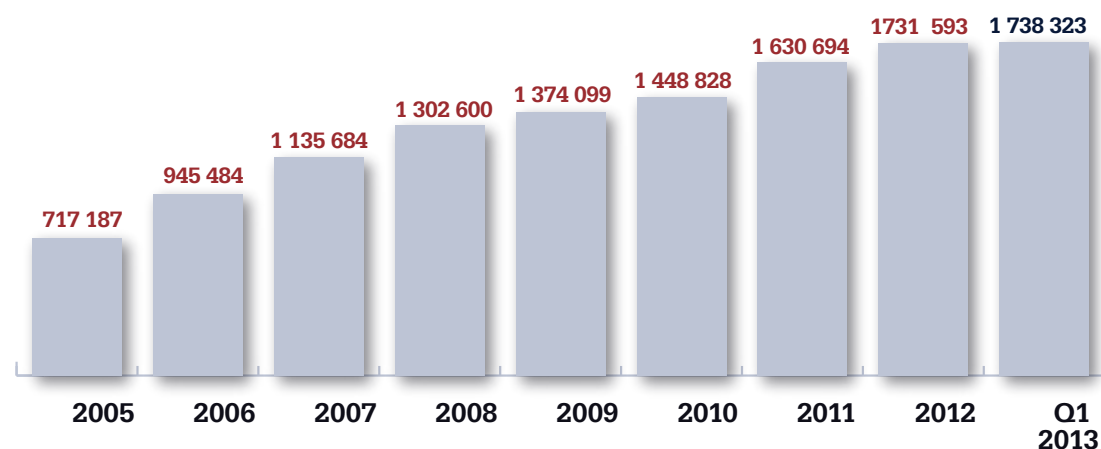
* AMRON Centre was established by Polish Banks Association to manage and develop the System for Analysis and Monitoring of Real Estate Market Transactions and it operates within the organizational structure of a limited-liability company Centre of Banking Law and Information.

Situation on housing loans market

Number of active housing loans

First quarter of 2013 ended with slight increase in total number of active housing loans – it amounted to **6 730** active loans, comparing to the status as for the end of 2012. After Q1 2013, the total portfolio of active housing loans amounted to **1 738 323**.

Chart 1. Total number of active housing loans in 2005 – Q1 2013



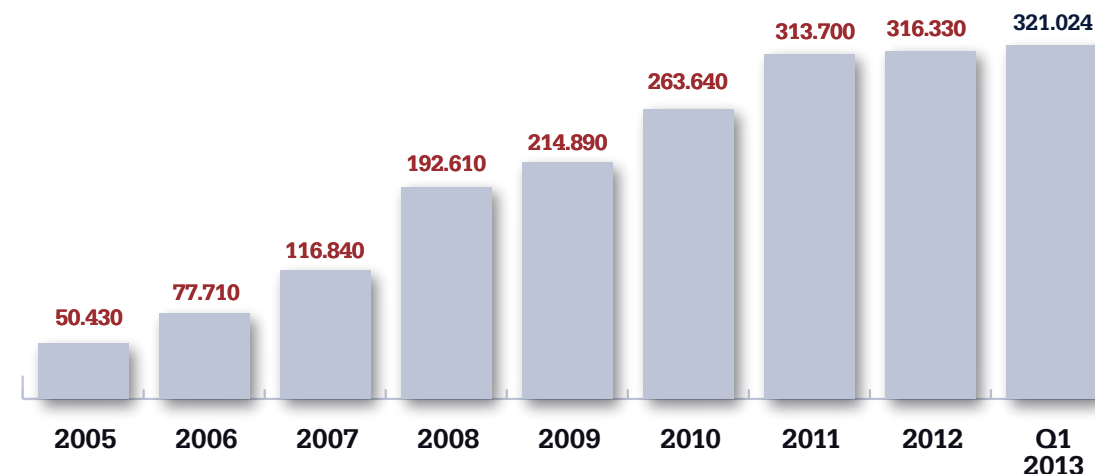
Source: Polish Banks Association

Total housing loans debt

After first three months of 2013, total housing loans debt increased by **1.48%**, comparing to the value noted as for the end of 2012. At the end of the analysed period, value of Polish households debt reached the level of **PLN 321.024 Mio** (while by the end of Q4 2012 it amounted to **PLN 316.331 Mio**).

The chart below presents changes of value of total housing loans debt (PLN billion) since 2005.

Chart 2. Total debt from housing loans in 2005 – Q1 2013 (PLN billion)



Source: Polish Banks Association, National Bank of Poland

Number and value of new housing loans

Q1 2013 brought continuous decrease in both value and number of new housing loan agreements. Value of newly granted loans amounted to **PLN 8.017 billion**, what represents a decrease by **9.34%** comparing to the previous quarter's results. Number of new loan agreements concluded in Q1 2013 amounted to **41 599**, i.e. **12.46%** less than in Q4 2012, when it amounted to **47 523** agreements.

The table below presents the mortgage lending figures of Polish banks from Q1 2009 until Q1 2013, including number and total value of loans granted in particular quarters.

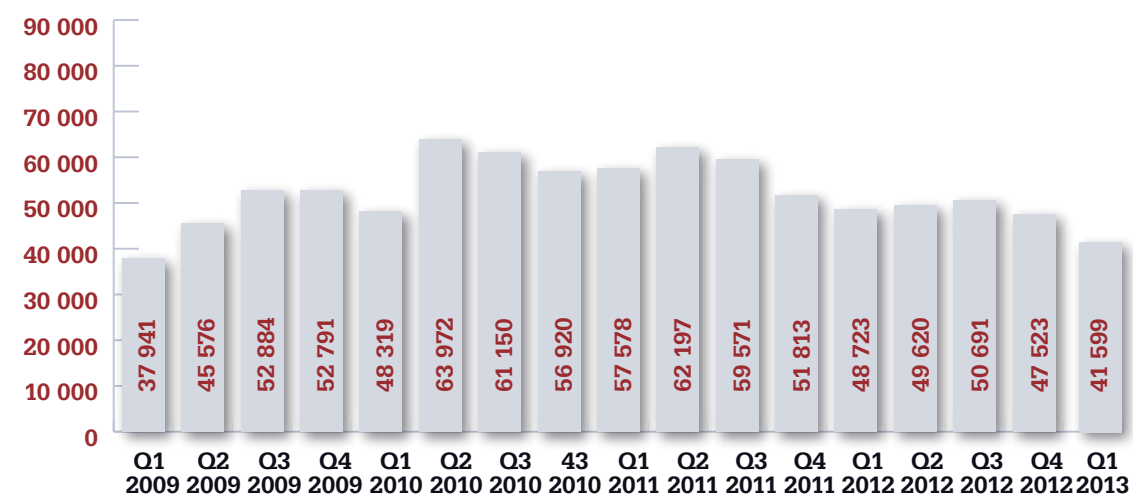
Table 1. Value and number of new housing loans in Q1 2009 – Q1 2013

quarter	value (PLN Mio)	change/ previous quarter	number	change/ previous quarter
Q1 2009	7.609	35.88% ↓	37 941	35.40% ↓
Q2 2009	9.376	23.22% ↑	45 576	20.12% ↑
Q3 2009	10.945	16.73% ↑	52 884	16.03% ↑
Q4 2009	10.804	1.29% ↓	52 791	0.18% ↓
Q1 2010	9.809	9.21% ↓	48 319	8.47% ↓
Q2 2010	13.523	37.86% ↑	63 972	32.40% ↑
Q3 2010	13.091	3.20% ↓	61 150	4.41% ↓
Q4 2010	12.237	6.52% ↓	56 920	6.92% ↓
Q1 2011	12.252	0.12% ↑	57 578	1.16% ↑
Q2 2011	13.395	9.33% ↑	62 197	8.02% ↑
Q3 2011	12.774	4.64% ↓	59 571	4.22% ↓
Q4 2011	10.789	15.54% ↓	51 813	13.02% ↓
Q1 2012	10.200	5.46% ↓	48 723	5.96% ↓
Q2 2012	10.044	1.53% ↓	49 620	1.84% ↑
Q3 2012	10.021	0.23% ↓	50 691	2.16% ↑
Q4 2012	8.843	11.76% ↓	47 523	6.25% ↓
Q1 2013	8.017	9.34% ↓	41 599	12.46% ↓

Source: Polish Banks Association

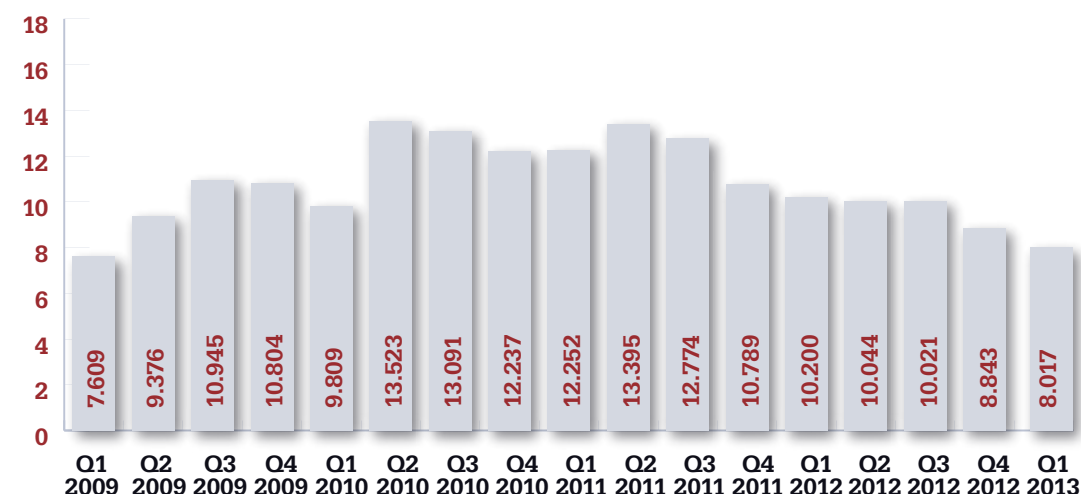
Value of new loans granted in Q1 2012 amounted to **PLN 10.200 billion**, i.e. **21.40%** more than in Q1 2013. Number of new loans granted in Q1 2012 was also higher comparing to the results of Q1 2013 – the difference amounted to **14.62%**.

Chart 3. Number of new loan agreements in Q1 2009 – Q1 2013, quarterly



Source: Polish Banks Association

Chart 4. Value of new loan agreements in Q1 2009 – Q1 2013 (PLN billion)

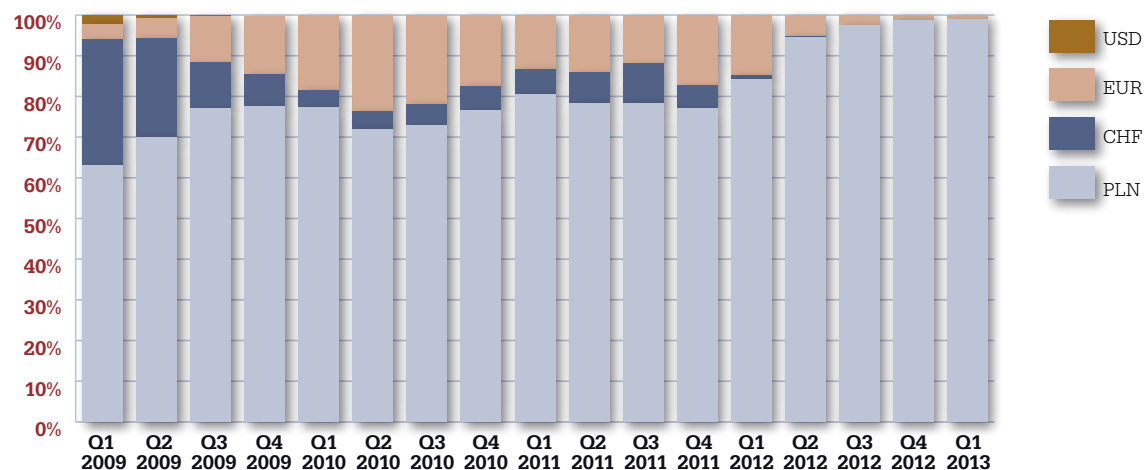


Source: Polish Banks Association

Loan currency

Currency structure of new loans granted in Q1 2013 remained almost unchanged, comparing to Q4 2012. Share of EUR loans slightly diminished and as for the end of March it amounted to **1.11%**, while share of PLN granted loans repeatedly increased and amounted to almost **99%** of value of all housing loans granted in Q1 2013.

Chart 5. Currency structure of new loans in Q1 2009 – Q1 2013



Source: Polish Banks Association

Table 2. Currency structure of the value of new loans in Q4 2008 – Q4 2012

quarter	PLN	CHF	EUR	USD	other
Q1 2009	63.00%	31.00%	3.80%	2.20%	0.00%
Q2 2009	70.01%	24.26%	4.88%	0.84%	0.01%
Q3 2009	76.94%	11.34%	11.45%	0.10%	0.17%
Q4 2009	77.44%	8.11%	14.02%	0.16%	0.27%
Q1 2010	77.23%	4.28%	18.35%	0.10%	0.05%
Q2 2010	71.90%	4.40%	23.60%	0.10%	0.02%
Q3 2010	72.81%	5.38%	21.76%	0.03%	0.03%
Q4 2010	76.55%	6.06%	17.33%	0.04%	0.02%
Q1 2011	80.55%	6.12%	13.20%	0.12%	0.01%
Q2 2011	78.36%	7.49%	14.10%	0.03%	0.01%
Q3 2011	78.36%	9.75%	11.79%	0.08%	0.02%
Q4 2011	77.04%	5.67%	17.17%	0.10%	0.02%
Q1 2012	84.20%	1.06%	14.65%	0.07%	0.01%
Q2 2012	94.61%	0.12%	5.19%	0.07%	0.01%
Q3 2012	97.37%	0.17%	2.42%	0.02%	0.02%
Q4 2012	98.70%	0.02%	1.25%	0.03%	0.00%
Q1 2013	98.83%	0.01%	1.11%	0.05%	0.00%

Source: Polish Banks Association

Quality structure of mortgage loans portfolio

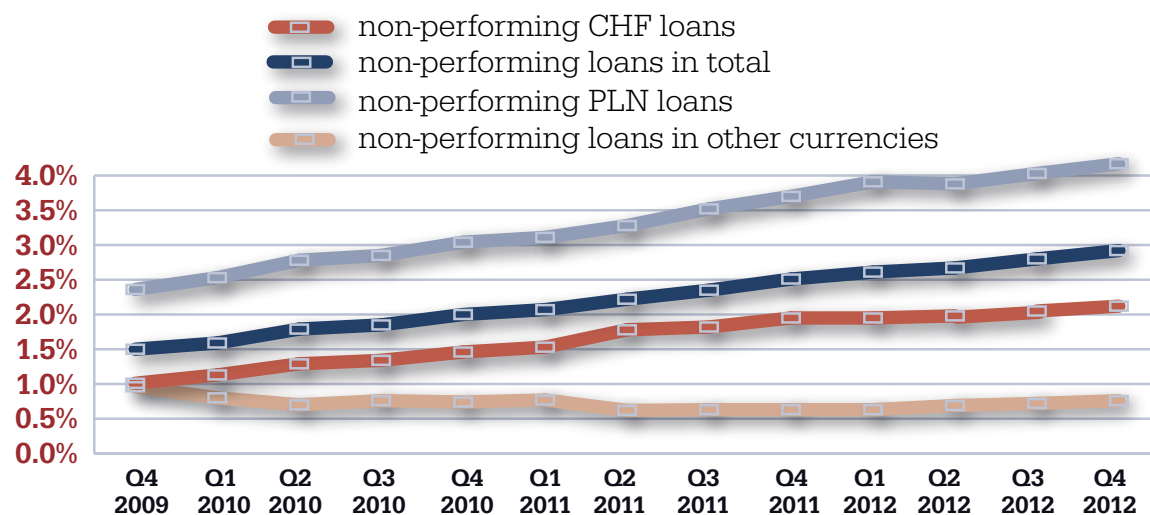
Table 3. Share of non-performing loans in total mortgage loans portfolio in Q1 2010 – Q1 2013

quarter	non-performing loans in total	non-performing PLN loans	non-performing CHF loans	non-performing loans in other currencies
Q1 2010	1.50%	2.36%	1.01%	0.96%
Q2 2010	1.59%	2.53%	1.13%	0.80%
Q3 2010	1.79%	2.78%	1.29%	0.70%
Q4 2010	1.85%	2.85%	1.34%	0.76%
Q1 2011	2.00%	3.04%	1.46%	0.74%
Q2 2011	2.07%	3.11%	1.53%	0.77%
Q3 2011	2.22%	3.28%	1.78%	0.62%
Q4 2011	2.35%	3.52%	1.82%	0.63%
Q1 2012	2.51%	3.70%	1.95%	0.63%
Q2 2012	2.61%	3.91%	1.95%	0.63%
Q3 2012	2.67%	3.88%	1.98%	0.69%
Q4 2012	2.80%	4.03%	2.05%	0.72%
Q1 2013	2.92%	4.17%	2.12%	0.76%

Source: Polish Banks Association, National Bank of Poland

Share of non-performing loans in total portfolio of housing loans increased in Q1 2013 up to the level of **2.92%**, i.e. by **0.11 p.p.** Non-performing PLN loans constituted **4.17%** of the total structure of non-performing loans, when in Q4 2012 it was **4.03%**.

Chart 6. Share of non-performing loans in total mortgage portfolio in Q1 2010 – Q1 2013



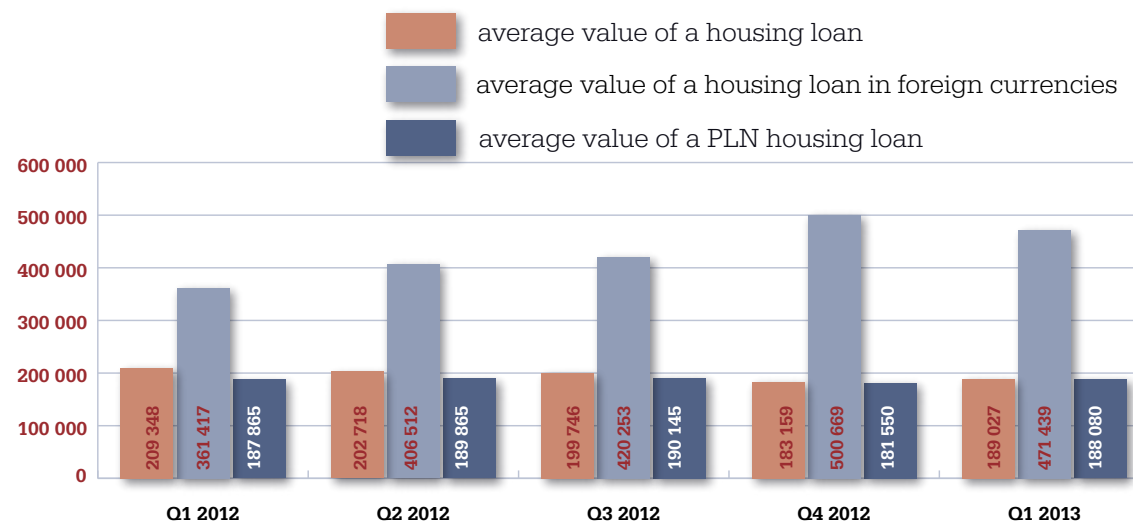
Source: Polish Banks Association, National Bank of Poland

Average value of a loan

First quarter of the year brought the increase in the average value of a newly granted loan up to **PLN 189 027**, what means that the average loan value was higher by **PLN 5 868**, i.e. by **3.20%** comparing to the average value of a loan granted in Q4 2012. Average value of a PLN loan increased by **PLN 6 530 (3.60%)** and as for the end of Q1 2013 it amounted to **PLN 188 080**, while the value of a currency loan diminished by **PLN 29 230** and amounted to **PLN 471 439**.

The average value of a new housing loan was effected most of all by the value of an average PLN loan, as share of PLN loans dominated the portfolio of new loans and new currency loans were rather exceptional.

Chart 7. Average value of a housing loan, aggregated and by currency in Q1 2012 – Q1 2013



Source: Polish Banks Association

Table 4. Average value of a loan, aggregated and by currency in Q1 2012 – Q1 2013

quarter	average value of a housing loan	average value of a housing loan in foreign currencies	average value of a PLN housing loan
Q1 2012	209 348	361 417	187 865
Q2 2012	202 718	406 512	189 865
Q3 2012	199 746	420 253	190 145
Q4 2012	183 159	500 669	181 550
Q1 2013	189 027	471 439	188 080

Source: Polish Banks Association

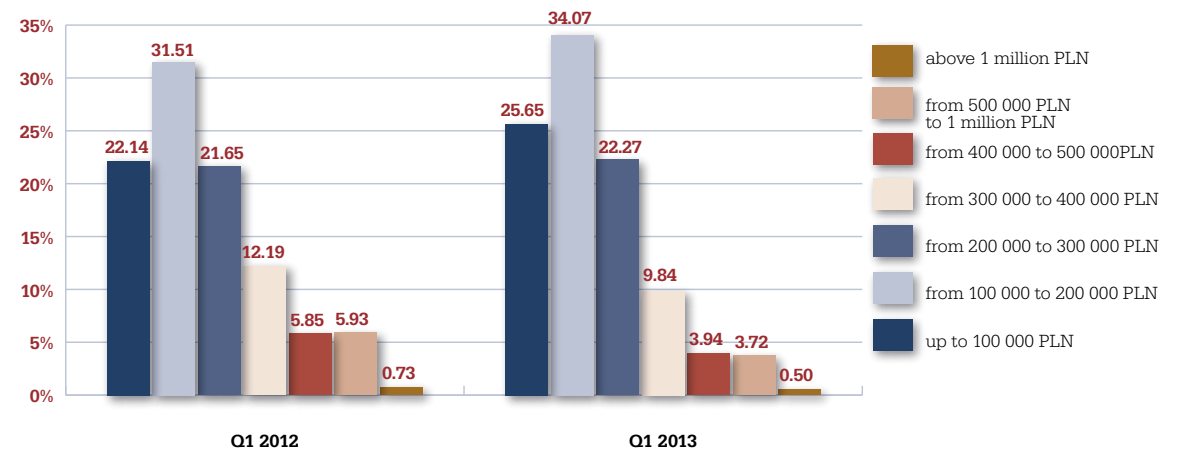
Structure of new loans, by amount

Decline in number of new housing loans granted in Q1 2013 was noted in segment of loans amounting up to **PLN 200 000**, comparing to Q4 2012. The most significant decrease (by **1.5 p.p.**) was noted in lowest loans segment – up to **PLN 100 000**. Share of loans for the amount from **PLN 100 000 up to PLN 200 000** diminished by

0.7 p.p., but this segment still dominates the total structure of new loans – its share equalled to **34%** of the new portfolio. The greatest increase was recorded in the segment from **PLN 200 000 up to PLN 300 000** – share of that segment grew up by **1.7 p.p.** comparing to the previous quarter.

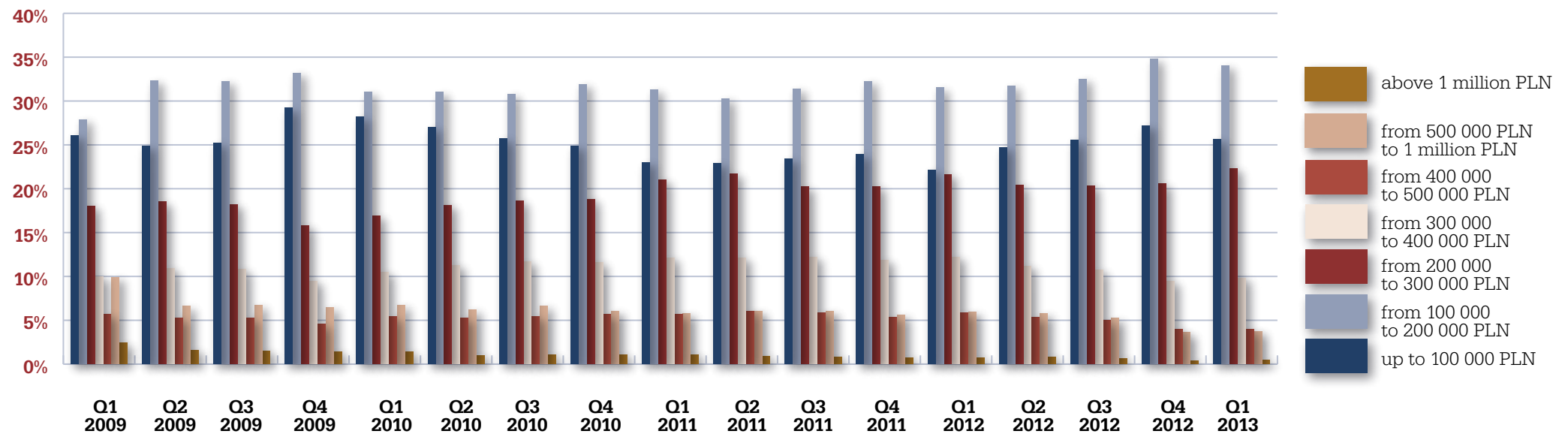
First quarter of 2013 brought decline in value and number of new housing loans. It may be stated that due to the current economic situation, new loans were granted to borrowers with high and stable incomes, what explains increase in number of loans granted for the amount from PLN 200 000 to PLN 300 000 and decreased share of loans up PLN 200 000.

Chart 8. Structure of the new loans amount – comparison of Q1 2012 and Q1 2013



Source: Polish Banks Association

Chart 9. Structure of the new loans amount in Q1 2009 – Q1 2013



Source: Polish Banks Association

Table 5. Structure of the new loans amount in Q1 2009 – Q1 2013

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
up to 100 000 PLN	26.10%	24.90%	25.20%	29.20%	28.20%	27.00%	25.72%	24.90%	23.03%	22.92%	23.44%	23.96%	22.14%	24.70%	25.54%	27.22%	25.65%
from 100 000 to 200 000 PLN	27.90%	32.30%	32.20%	33.20%	31.00%	31.00%	30.81%	31.87%	31.26%	30.26%	31.36%	32.26%	31.51%	31.74%	32.53%	34.80%	34.07%
from 200 000 to 300 000 PLN	18.00%	18.50%	18.20%	15.80%	16.90%	18.10%	18.65%	18.79%	21.00%	21.68%	20.21%	20.25%	21.65%	20.42%	20.35%	20.55%	22.27%
from 300 000 to 400 000 PLN	10.00%	10.90%	10.80%	9.50%	10.50%	11.30%	11.68%	11.60%	12.11%	12.13%	12.21%	11.83%	12.19%	11.21%	10.75%	9.43%	9.84%
from 400 000 to 500 000 PLN	5.70%	5.30%	5.30%	4.60%	5.40%	5.30%	5.41%	5.66%	5.68%	6.06%	5.89%	5.38%	5.85%	5.32%	4.97%	4.01%	3.94%
from 500 000 PLN to 1 million PLN	9.90%	6.60%	6.70%	6.50%	6.70%	6.20%	6.65%	6.07%	5.82%	6.04%	6.06%	5.58%	5.93%	5.79%	5.23%	3.60%	3.72%
above 1 million PLN	2.40%	1.60%	1.50%	1.40%	1.40%	1.00%	1.07%	1.11%	1.09%	0.91%	0.82%	0.74%	0.73%	0.82%	0.63%	0.39%	0.50%

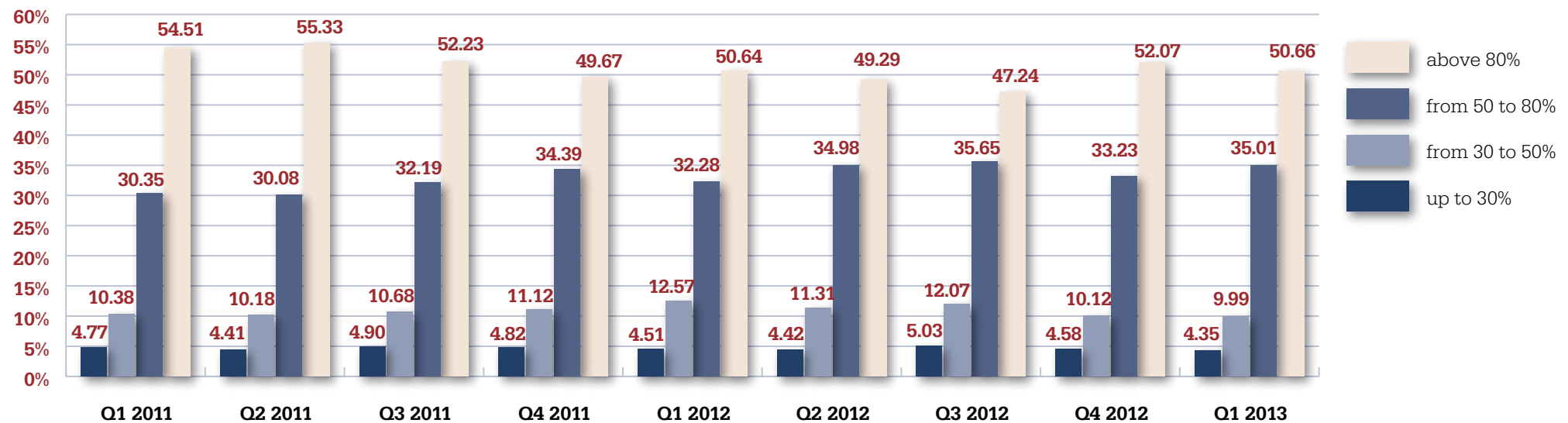
Source: Polish Banks Association

Structure of the LtV ratio

Q1 2013 brought clear changes in LtV structure of new loans portfolio. Share of loans with LtV ratio at the level above 80% diminished by **1.4 p.p.** and as for the end of the quarter it equalled to **50.7%** of

the whole portfolio of new loans. At the same time, share of loans with LtV ratio at the level from **50% to 80%** increased by almost **1.8 p.p.** – as for the end of the quarter it amounted to **35%**. As far as new loans with the LtV ratio at the level below **50%** are concerned, a slight decrease – not exceeding **0.3 p.p.** was noted.

Chart 10. Structure of LtV ratio of newly granted loans in Q1 2011 – Q1 2013, in terms of value



Source: Polish Banks Association

Table 6. Structure of LtV ratio of newly granted loans in Q1 2011 – Q1 2013

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
up to 30%	4.77%	4.41%	4.90%	4.82%	4.51%	4.42%	5.03%	4.58%	4.35%
from 30 to 50%	10.38%	10.18%	10.68%	11.12%	12.57%	11.31%	12.07%	10.12%	9.99%
from 50 to 80%	30.35%	30.08%	32.19%	34.39%	32.28%	34.98%	35.65%	33.23%	35.01%
above 80%	54.51%	55.33%	52.23%	49.67%	50.64%	49.29%	47.24%	52.07%	50.66%

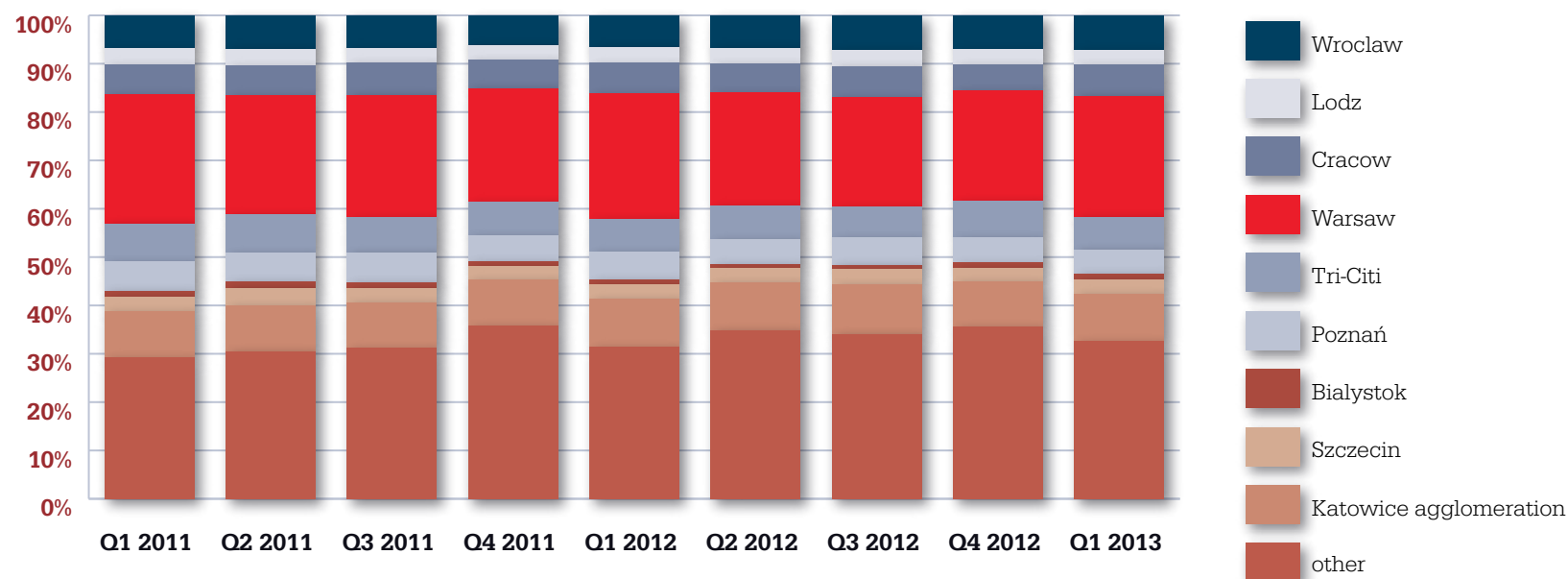
Source: Polish Banks Association

Housing loans in major Polish cities

Cumulative share of new loans granted in the biggest Polish cities from January to March 2013 in value structure of new loans portfolio equalled to over **67%**. The greatest increases were recorded in

Warsaw (by over **2 p.p.**) and Cracow (by **1 p.p.**). No significant changes were noted in other monitored agglomerations. Share of smaller markets in value structure of newly granted loans diminished by almost **3 p.p.**, comparing to Q4 2012.

Chart 11. Value of newly granted loans in major Polish cities in Q1 2011 – Q1 2013



Source: Polish Banks Association

Table 7. Value of newly granted loans in major Polish cities in Q1 2011 – Q1 2013

	other	Katowice agglomeration	Szczecin	Bialystok	Poznan	Tri-Citi	Warsaw	Cracow	Lodz	Wroclaw
Q1 2011	19.40%	3.50%	4.30%	0.50%	7.80%	9.50%	34.10%	7.20%	4.40%	9.30%
Q2 2011	23.90%	6.70%	4.70%	0.70%	7.00%	7.80%	29.40%	7.10%	4.20%	8.50%
Q3 2011	26.80%	6.40%	3.90%	0.60%	6.40%	7.50%	28.90%	7.10%	4.30%	8.10%
Q4 2011	27.20%	7.10%	4.10%	0.90%	5.80%	6.90%	29.70%	6.60%	4.00%	7.70%
Q1 2012	26.15%	13.56%	4.14%	1.32%	6.31%	6.84%	23.34%	7.30%	4.15%	6.88%
Q2 2012	20.31%	10.19%	3.44%	0.96%	6.77%	8.81%	31.91%	5.93%	3.77%	7.90%
Q3 2012	23.48%	10.00%	3.10%	1.02%	6.06%	8.48%	30.90%	5.74%	3.63%	7.59%
Q4 2012	28.36%	9.49%	3.32%	1.35%	5.78%	7.85%	27.57%	6.28%	3.31%	6.68%
Q1 2013	29.27%	9.42%	3.14%	1.17%	6.06%	7.88%	26.73%	6.18%	3.23%	6.92%

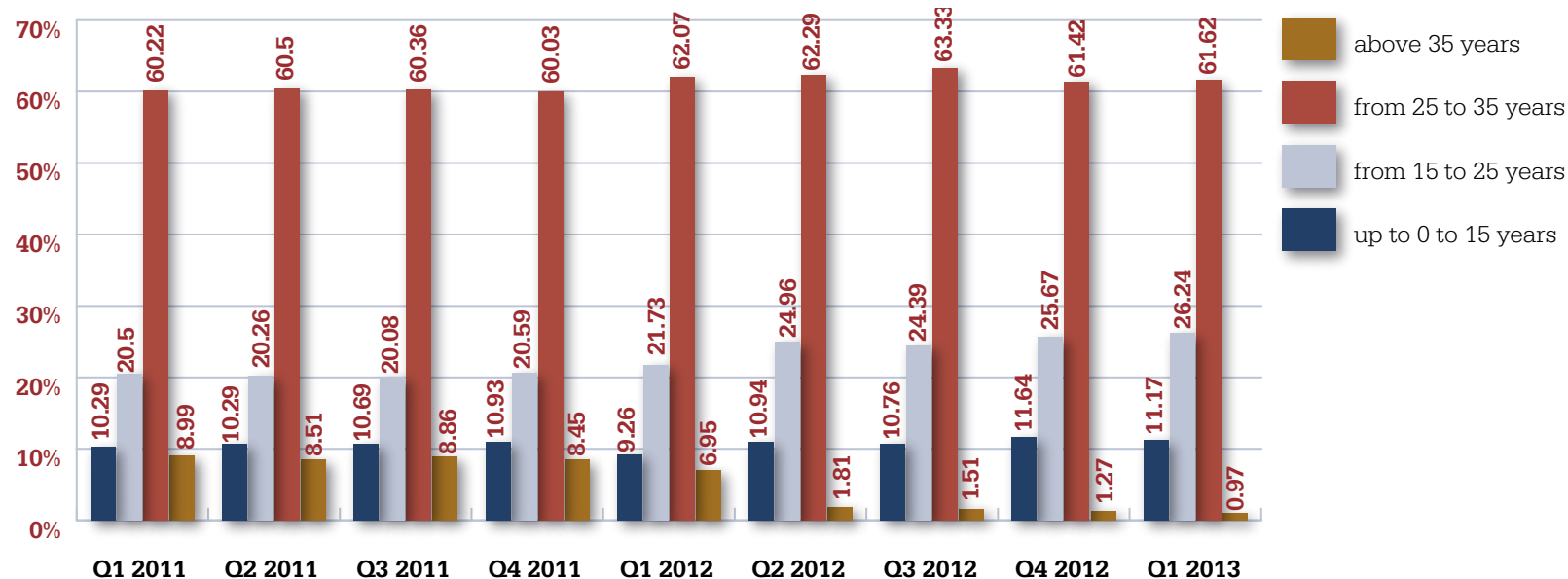
Source: Polish Banks Association

Lending period

In Q1 2013, changes in structure of new loans in terms of lending period referred to loans granted for the period of over 35 years – it was subsequent quarter, when share of that segment decreased and as for the end of March it amounted to nearly **1%**. Increases were

noted in shares of loans granted for the period from 15 to 25 years (by **0.6 p.p.** up to the level of **26%** of the total loans structure) and loans granted for the period from 25 to 35 years, which dominated in the whole new loans structure with the share at the level of **61.6%** (in Q1 2013 it increased by **0.2 p.p.**).

Chart 12. Structure of new loans by lending period in Q1 2011 – Q1 2013



Source: Polish Banks Association

Table 8. Structure of new loans by lending period in Q1 2011 – Q1 2013

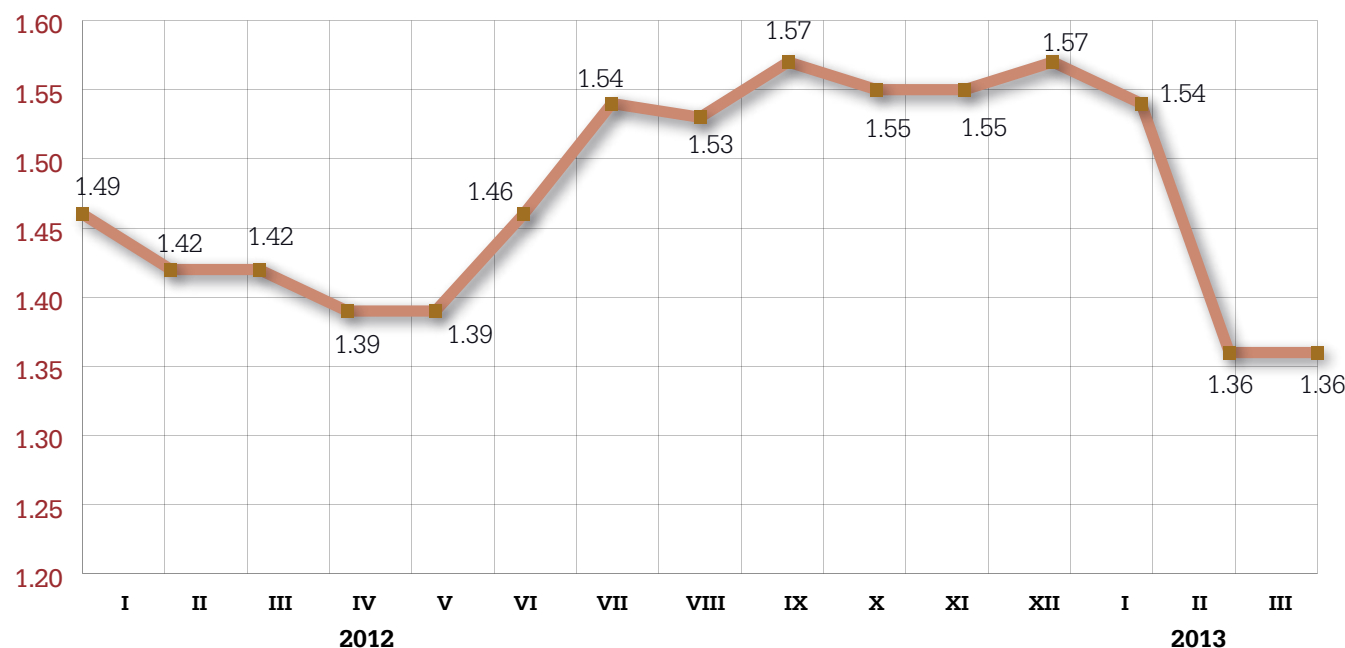
	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
up to 15 years	10.29%	10.73%	10.69%	10.93%	9.26%	10.94%	10.76%	11.64%	11.17%
from 15 to 25 years	20.50%	20.26%	20.08%	20.59%	21.73%	24.96%	24.39%	25.67%	26.24%
from 25 to 35 years	60.22%	60.50%	60.36%	60.03%	62.07%	62.29%	63.33%	61.42%	61.62%
above 35 years	8.99%	8.51%	8.86%	8.45%	6.95%	1.81%	1.51%	1.27%	0.97%

Source: Polish Banks Association

Average margin levels and mortgage interest rates

In Q1 2013, decrease in the average margin level was recorded. The greatest dynamics of changes was observed at the turn of January and February, when the average margin diminished from **1.54%** to **1.36%** (for the exemplary housing loan in the amount of PLN 300 000 granted for 25 years, with LtV ratio at the level of 75%).

Chart 13. Average margin of a housing loan in January 2012 – March 2013

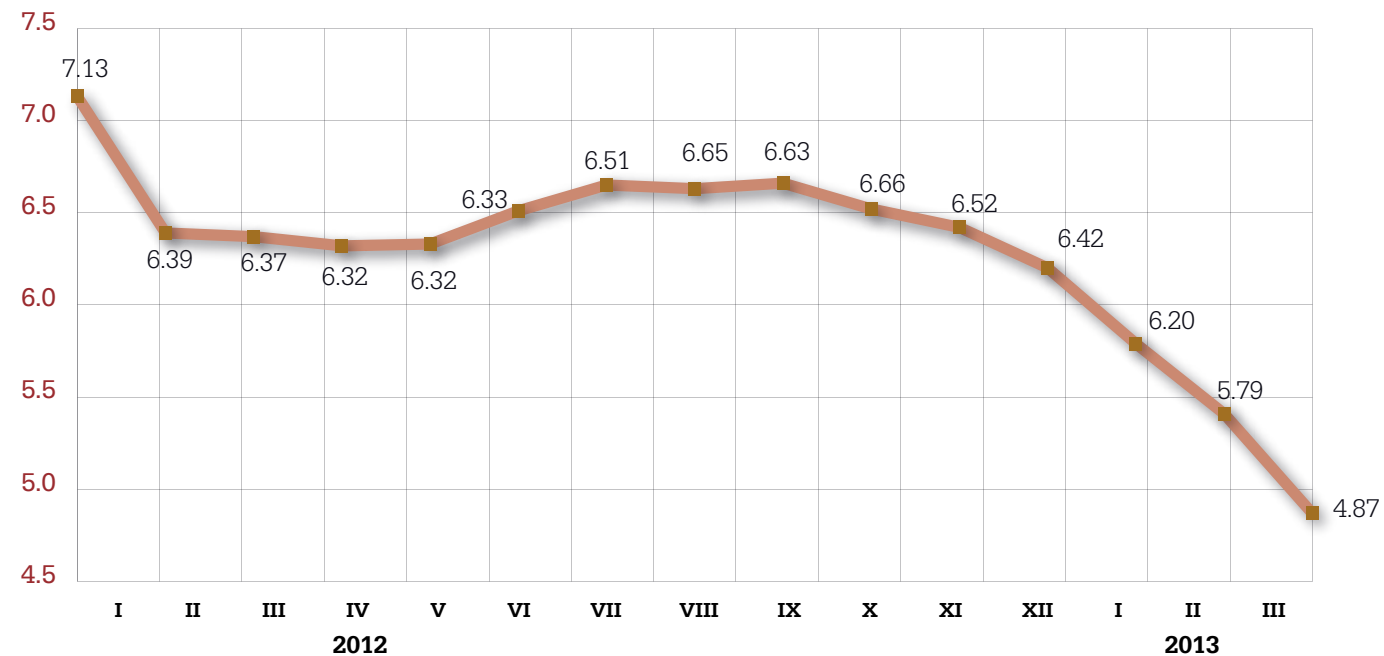


Source: AMRON, banks' credit offers

In Q1 2013, downward trend in average housing loan interest rate continued and it was determined by two crucial factors: subsequent decrease in NBP interest rates after Monetary Policy Council's decisions and diminishing level of the average housing loan margin. The average

interest rate as for the end of March 2013 equalled to **4.87%** and it was lower by **1.3 p.p.** from the average interest rate noted in December 2012. Comparing Q1 2013 to Q1 2012, the average interest rate of a housing loan diminished by **1.5 p.p.** (March 2013 / March 2012).

Chart 14. Average interest rate of a housing loan in January 2012 – March 2013



Source: AMRON, banks' credit offers

Housing Availability Index M3

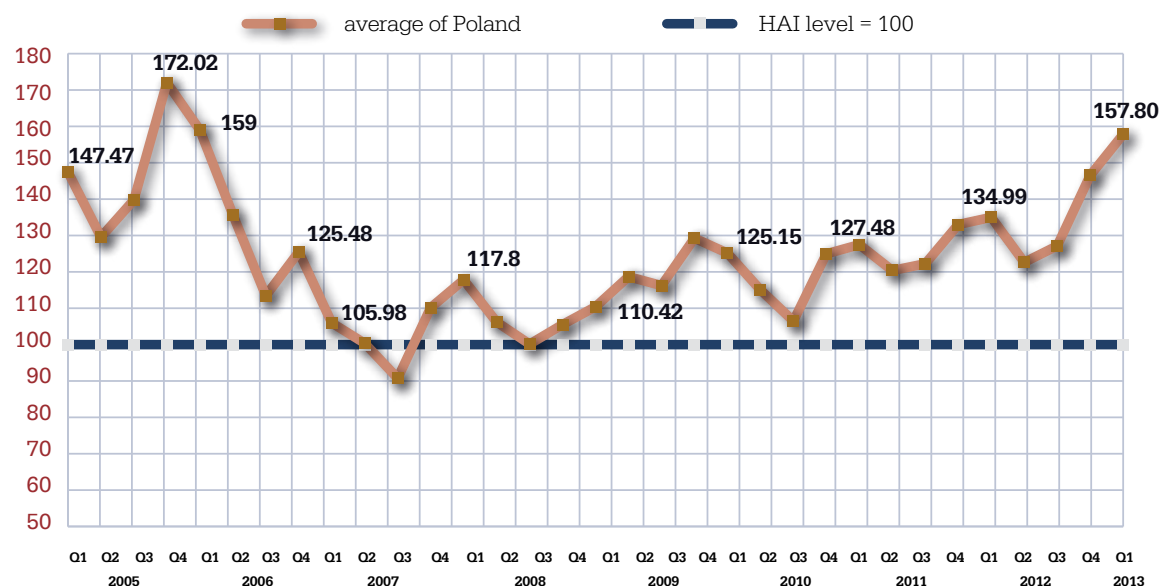
Housing Availability Index (HAI M3), a synthetic measure presented in AMRON-SARFiN Reports, shows quarterly changes in availability of housing units in Poland for a hypothetical family comprising of two employed adults with one older child. Decrease in a housing availability in Q1 2013 was influenced by the following factors:

- further decrease in housing prices in cities monitored for HAI M3 calculations (8 the biggest Polish cities, segment of flats of 45-50 sq.m. of floor area) – in Q1 2013 the decrease equalled to **0.18%** in relation to Q4 2012, while comparing to Q1 2012 prices decreased by **4.42%**;

- decrease in the average interest rate of the new housing loans granted in Q1 2013 – due to the economic slowdown and diminishing reference rates, subsequent decline of mortgage costs in PLN may be expected this year;
- increase (by **1.43%**) in the average earnings level per exemplary family and increase (by **1.43%**) in living costs, which for the Report purposes represent the minimum subsistence level.

Summarizing, all the abovementioned factors determined the increase in disposable income calculated for HAI M3 purposes as difference between earnings level and mortgage instalment or minimum subsistence level (lower value is considered) by over **8.10%**, which resulted in increased HAI M3 Index by **11.28 points** comparing to previous quarter and by **22.81 points** comparing to respective quarter of previous year.

Chart 15. Housing Availability Index (HAI M3) in Q1 2005 – Q1 2013



Source: Polish Banks Association

Purchasing powers on the largest housing markets

Analysis of the average net monthly income in surveyed cities and the average transaction price per a square meter of a housing unit in first quarter of 2013 brings the conclusion that purchasing powers in surveyed cities slightly increased in relation to values noted in previous quarter. Q1 2013 brought the slight increase in purchasing powers of surveyed cities' citizens. The greatest floor area of a housing unit was available for purchasers in Katowice – the average monthly

remuneration noted in Q1 2013 equalled to the transaction price of approximately **1.06 sq.m.**, i.e. slightly more than in Q4 2013, when it was 1.00 sq.m.

The lowest average monthly remuneration noted in Bialystok enabled to buy **0.63 sq.m.** of an average housing unit. In Warsaw, the average monthly income noted in Q1 2013 enabled to purchase nearly **0.50 sq.m.** of a housing unit.

The below calculations were based on data concerning average prices of housing units of the most popular floor area (45-55 sq.m.) and the average net income, exploited for Housing Availability Index evaluation.

Table 9. Purchasing powers on the largest housing markets in Q1 2013

city	average net monthly income in Q1 2013	average transaction price of 1 sq. m. of housing unit of floor area from 45 sq. m. to 55 sq. m.	purchasable floor area (sq. m.) with the average monthly income in Q1 2013
Katowice	PLN 2 927	PLN 2 766	1.06
Lodz	PLN 2 618	PLN 3 715	0.70
Bialystok	PLN 2 612	PLN 4 132	0.63
Gdansk	PLN 2 777	PLN 5 138	0.54
Wroclaw	PLN 2 797	PLN 5 287	0.53
Poznan	PLN 2 634	PLN 5 160	0.51
Warsaw	PLN 3 499	PLN 7 202	0.49
Cracow	PLN 2 709	PLN 5 706	0.47

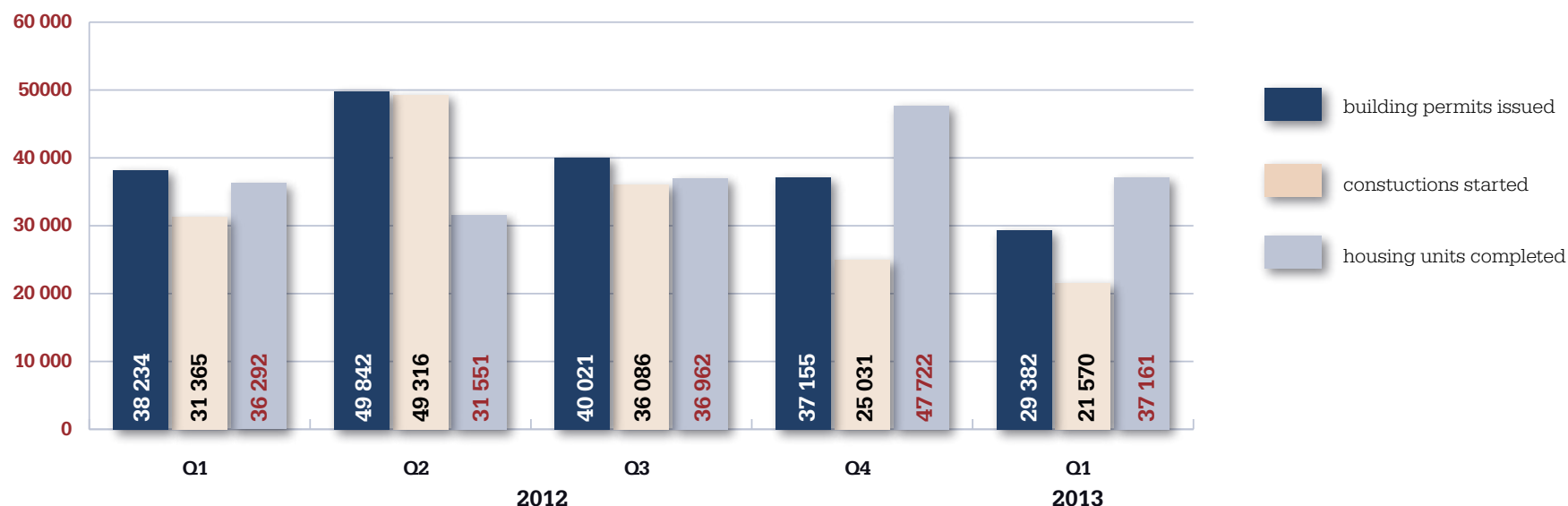
Source: AMRON, Central Statistical Office

Situation on the housing market

As expected, the beginning of the year brought decrease in both building permits issued and constructions started. Decrease was observed in analysis conducted quarter to quarter and year to year. According to Central Statistical Office, from January to March 2013 there were **29 382** building permits issued, i.e. **23%** less than in corresponding period of last year and **21%** less than in Q4 2012. Number of constructions started was **31%** lower and it amounted to **21 570** new investments comparing to Q1 2012. Relating to previous

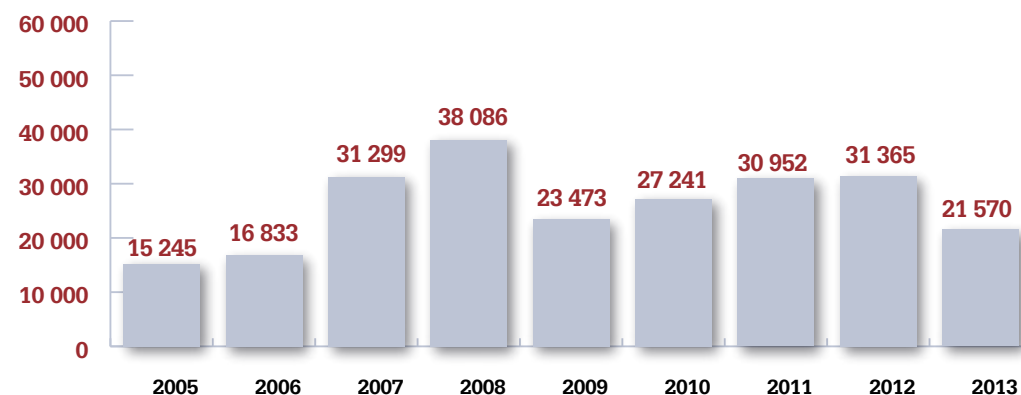
quarter, the drop equalled to **14%**. Decrease in supply is presented on Chart No. 17 – number of constructions started in Q1 2013 corresponds to the result of the year 2009. First three months of the year brought the slight increase in number of completed housing units – comparing Q1 2013 and Q1 2012, the increase amounted to only **2%**, while quarterly comparison proves the drop of **22%** and it amounted to **37 161** completed housing units.

Chart 16. Number of building permits issued, constructions started and housing units completed in Q1 2012 – Q1 2013



Source: Central Statistical Office

Chart 17. Number of constructions started in Q1 of 2005 – 2013



Source: Central Statistical Office

In analysed period, housing cooperatives sector started construction of **256** housing units (comparing to 286 in Q4 2012), while the number of building permits in this sector decreased comparing to last quarter 2012 from 353 to **156**. Number of housing units completed by housing cooperatives in Q1 2013 amounted to **1 047** units and was comparable to the results noted in Q4 2012 (decrease was equal to **2.29%**).

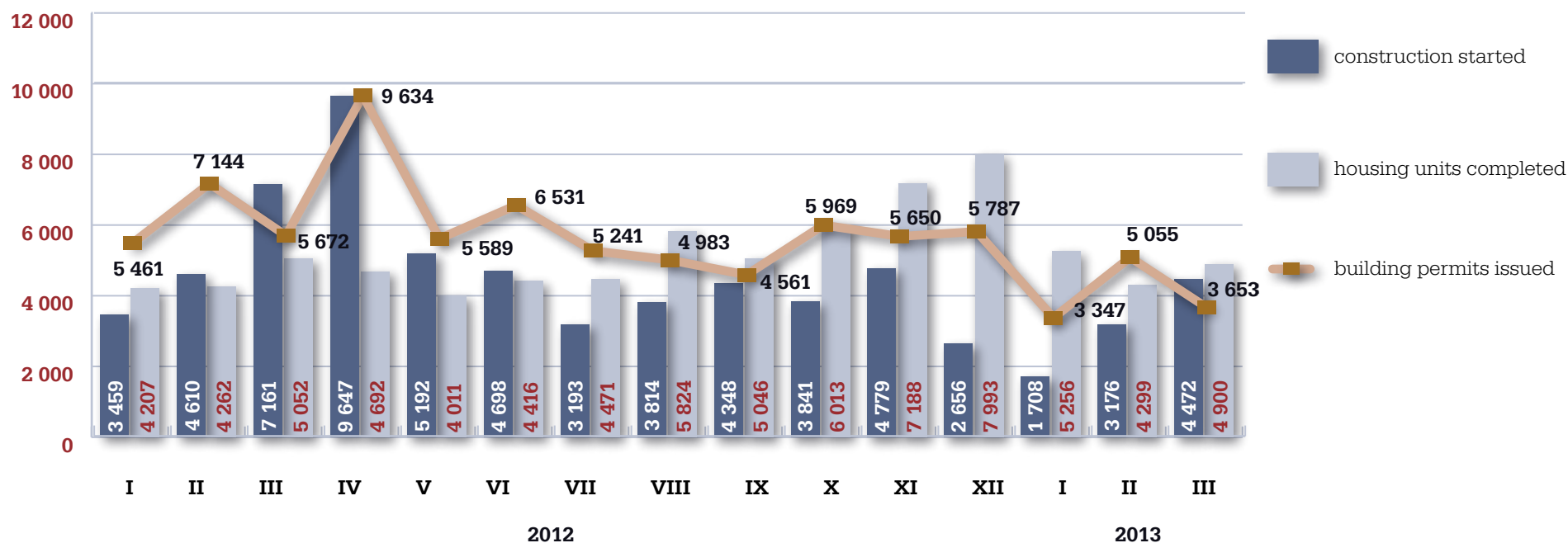
In developers sector, first quarter of 2013 was the time of slowdown. Number of building permits issued was the lowest since 2009 – it amounted to **12 037** permits, which means decrease of almost **31%**

comparing to Q4 2012 results and **34.14%** comparing to the results of Q1 2012.

From January to March, previous increase in number of completed housing units also slowed down – comparing to corresponding period of 2012, in Q1 2013 there were nearly **7%** more completed

units, but comparing to Q4 2012, number of completed units decreased by almost **42%**. High level of supply and limited demand in Q1 2013 effected in limited production and developers' effort focused on effective promotion and sale of already available housing units.

Chart 18. Number of building permits issued, constructions started and housing units completed by developers in January 2012 – March 2013



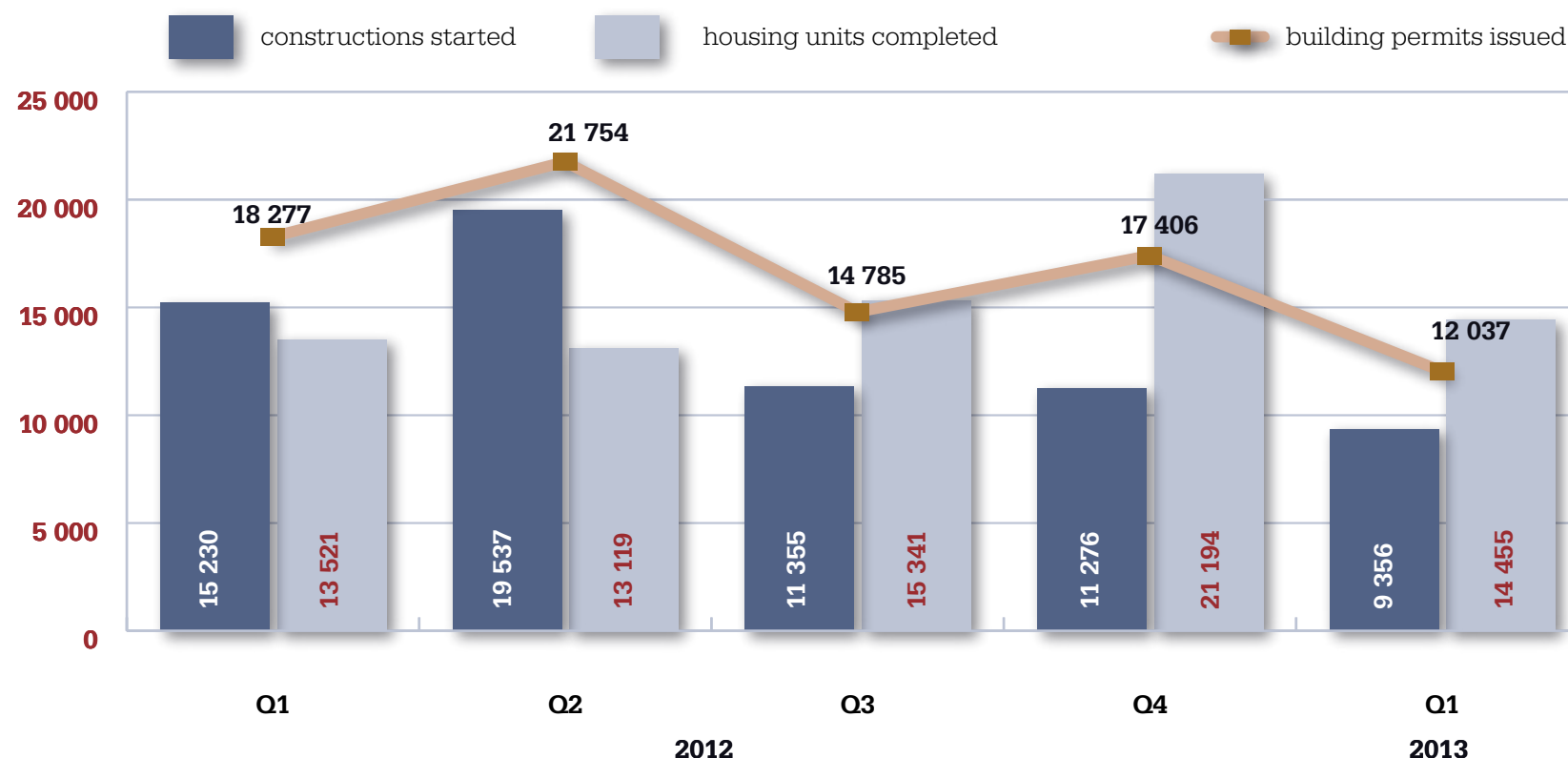
Source: Central Statistical Office

Table 10. Number of building permits issued, constructions started and housing units completed by developers in Q1 2012 – Q1 2013

	2012				2013
	Q 1	Q 2	Q 3	Q 4	Q 1
Constructions permits	18 277	21 754	14 785	17 406	12 037
Construction sstarted	15 230	19 537	11 355	11 276	9 356
Housing units completed	13 521	13 119	15 341	21 194	14 455

Source: Central Statistical Office

Chart 19. Number of building permits issued, constructions started and housing units completed by developers in Q1 2012 – Q1 2013, quarterly



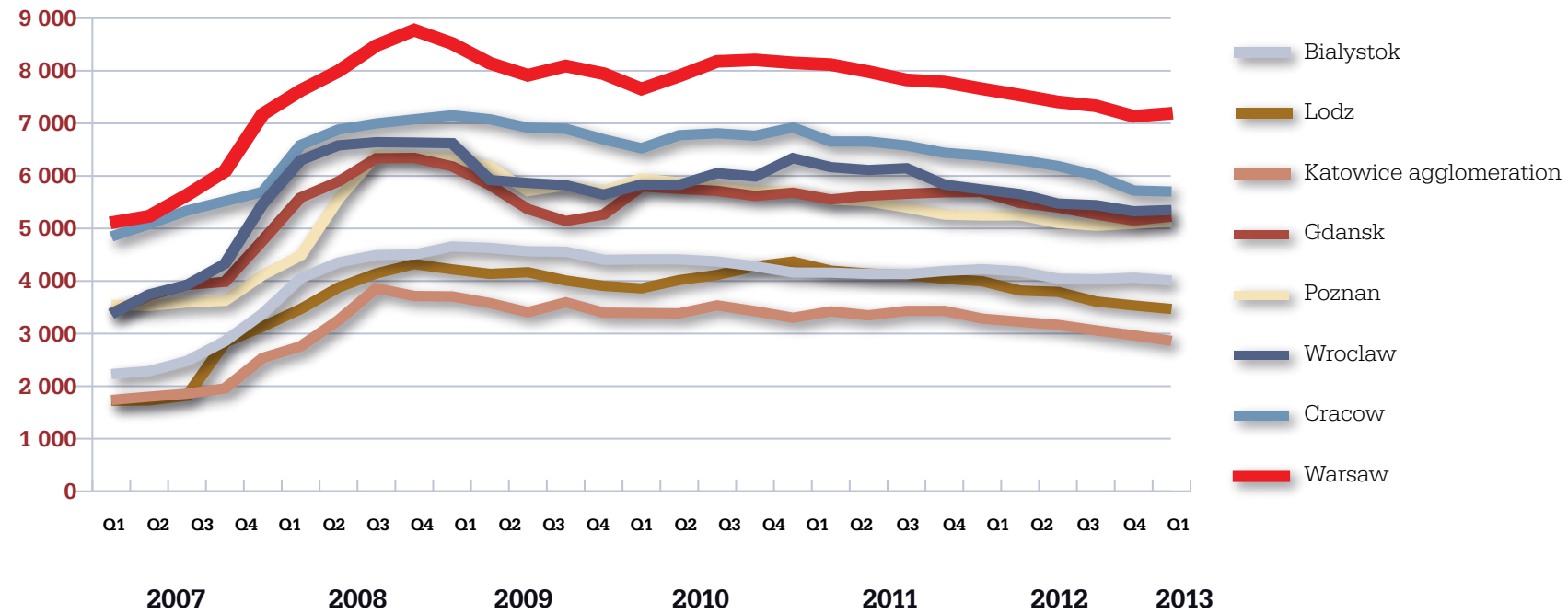
Source: Central Statistical Office

Average transaction prices of housing units

First quarter of 2013 brought changes on the biggest housing markets in Poland. Comparing to previous quarter, the greatest decrease in average transaction price per square meter amounted to **PLN 105** and was noted in Katowice agglomeration. In Bialystok, Cracow and Lodz, the average price slightly decreased, respectively by **PLN 56**, **PLN 19** and **PLN 67 per sq.m.** Increase in the average price was noted in Gdansk, Poznan, Warsaw and Wroclaw. The greatest increase (by **PLN 75 per sq.m.**) was recorded in Gdansk, while in Poznan it amounted to **PLN 46 per sq.m.**, in Warsaw – **PLN 58 per sq.m.** and in Wroclaw – **PLN 24 per sq.m.** First

increases in average transaction price levels since several quarters do not mean the change of the trends, but only prices adjustments after the “Family on Its Own” Programme. Before termination of the Programme, transaction prices were adapted to binding limits and quite often some part of the housing cost was included in prices of parking lots or other additional premises. Comparing to Q1 2012, the greatest change in transaction prices level was recorded in Katowice agglomeration – decrease in average price amounted to **PLN 363 per sq.m.**, which means drop by **11%**. Significant decrease was also recorded in Cracow – it amounted to **PLN 600 per sq.m.**, i.e. almost **10%**. In capital city, the average transaction price diminished by **PLN 344 per sq.m.**, i.e. **4.56%**.

Chart 20. Average transaction prices per square meter of a housing unit in selected cities in Q1 2007 – Q1 2013



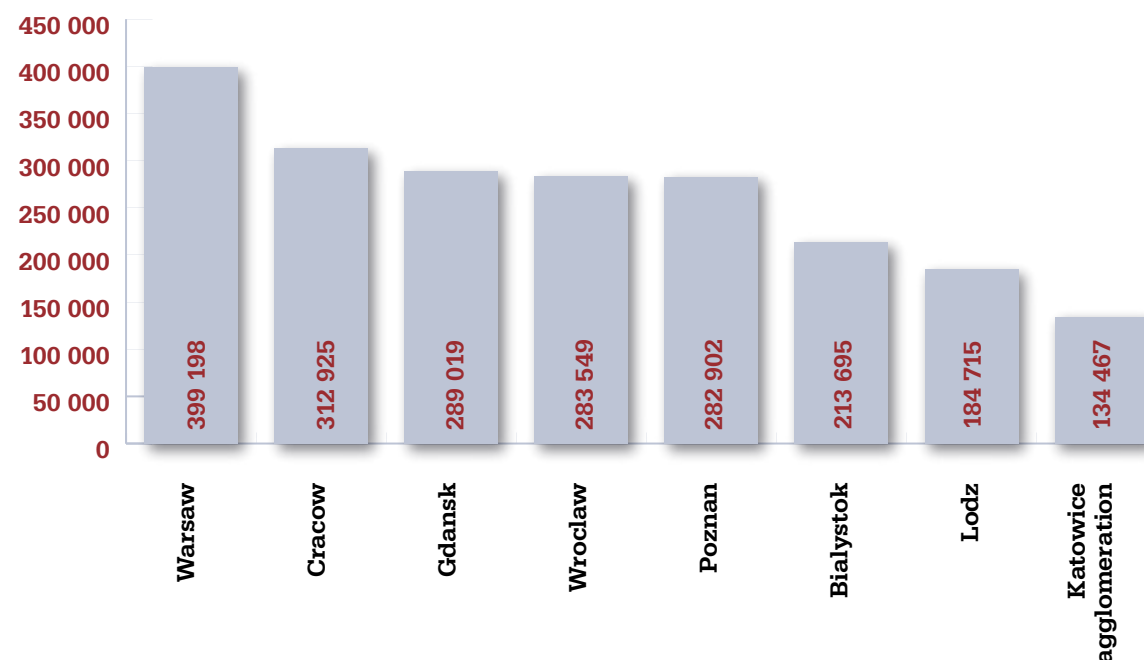
Source: AMRON

Table 11. Average transaction price per square meter of a housing unit in selected cities in Q1 2007 – Q4 2012

	2007				2008				2009				2010				2011				2012				2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Warsaw	7 176	7 625	7 994	8 481	8 774	8 519	8 143	7 913	8 091	7 945	7 653	7 902	8 178	8 207	8 151	8 117	7 982	7 826	7 785	7 656	7 536	7 407	7 333	7 134	7 192
Bialystok	3 381	4 054	4 354	4 494	4 504	4 657	4 628	4 565	4 558	4 403	4 411	4 412	4 371	4 281	4 162	4 159	4 136	4 130	4 191	4 226	4 182	4 045	4 033	4 064	4 008
katowice agglomeration	2 538	2 758	3 255	3 862	3 715	3 708	3 580	3 407	3 595	3 398	3 393	3 385	3 537	3 427	3 301	3 423	3 348	3 432	3 433	3 285	3 225	3 166	3 061	2 967	2 862
Wroclaw	5 468	6 298	6 581	6 642	6 634	6 622	5 922	5 866	5 823	5 644	5 837	5 831	6 053	5 988	6 338	6 166	6 112	6 146	5 834	5 741	5 655	5 473	5 444	5 327	5 351
Gdansk	4 776	5 588	5 894	6 335	6 342	6 182	5 825	5 370	5 141	5 263	5 799	5 754	5 714	5 619	5 680	5 551	5 622	5 660	5 686	5 694	5 484	5 397	5 265	5 149	5 224
Cracow	5 696	6 586	6 882	6 998	7 077	7 153	7 077	6 917	6 897	6 695	6 526	6 774	6 811	6 764	6 921	6 655	6 654	6 577	6 440	6 384	6 302	6 187	6 012	5 721	5 702
Poznan	4 115	4 486	5 565	6 398	6 360	6 339	6 183	5 710	5 816	5 714	5 952	5 877	5 788	5 712	5 698	5 551	5 513	5 396	5 263	5 246	5 248	5 103	5 052	5 086	5 132
Lodz	3 135	3 467	3 878	4 145	4 322	4 222	4 136	4 167	4 010	3 907	3 861	4 018	4 116	4 279	4 370	4 198	4 142	4 116	4 042	3 995	3 819	3 793	3 611	3 535	3 468

Source: AMRON

Chart 21. Total average transaction prices of housing units in selected cities in Q1 2013



Source: AMRON

Share of particular floor area segments in total turnover volume in Warsaw

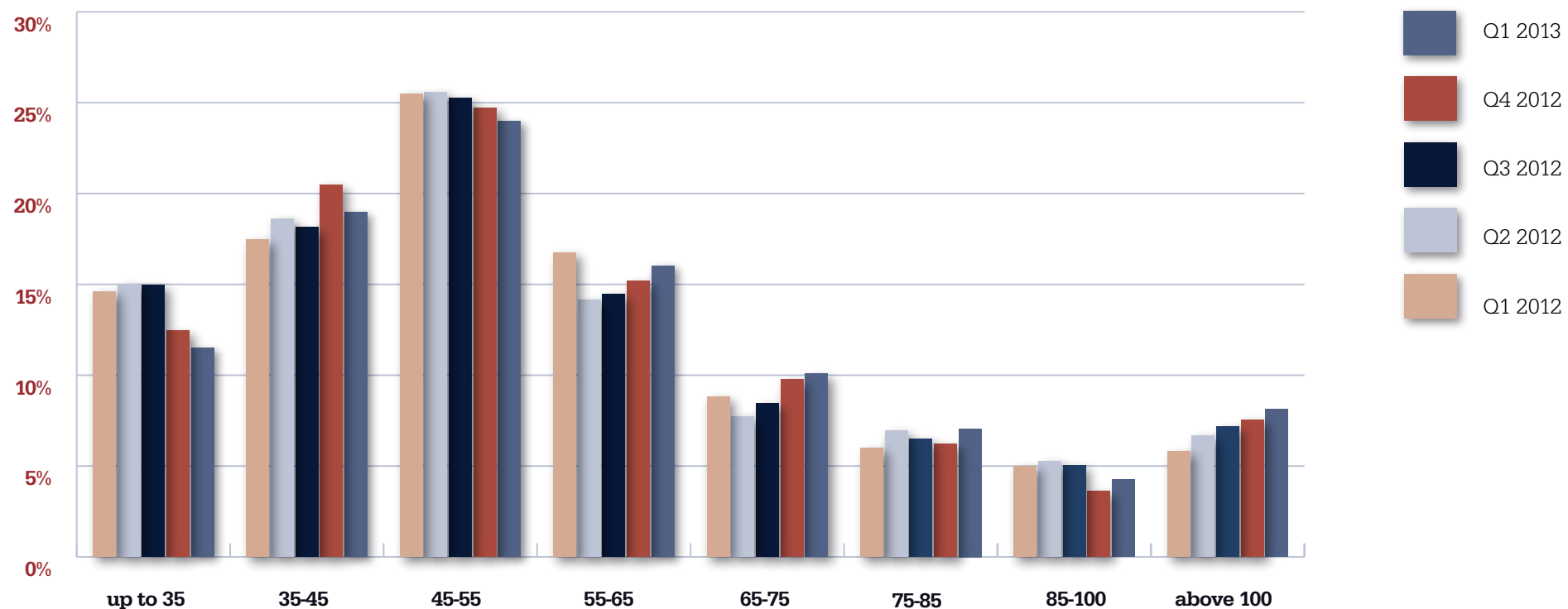
Table 12. Dynamics of changes in share of particular floor area segments in total turnover volume on housing markets in Q1 2012 – Q1 2013

floor area (sq. m.)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
up to 35	14.62%	15.02%	14.98%	12.44%	11.49%
35-45	17.49%	18.62%	18.13%	20.49%	18.97%
45-55	25.50%	25.56%	25.25%	24.71%	23.98%
55-65	16.76%	14.15%	14.48%	15.21%	16.13%
65-75	8.81%	7.74%	8.46%	9.77%	10.27%
75-85	6.01%	6.94%	6.50%	6.22%	6.46%
85-100	5.01%	5.27%	5.02%	3.61%	4.48%
above 100	5.81%	6.68%	7.18%	7.55%	8.23%

Source: AMRON

A decrease in turnover volume in segment of most popular (**54%** of the total turnover) flats of floor area up to 55 sq.m. was noted on Warsaw housing market. Share of dwellings with floor area from 35 to 45 sq.m. diminished by **1.5%** and as for the end of Q1 2013 it equaled to almost **19%**, comparing to Q4 2012. Share of housing units with floor area above 55 sq.m. increased – the greatest increase (**by 1 p.p.**) was recorded in segment of flats of floor area from 55 to 65 sq.m.

Chart 22. Share of particular floor area segments in total turnover volume on housing markets in Warsaw in Q1 2012 – Q1 2013



Source: AMRON

Average transaction prices of a square meter of a housing unit after the inflation adjustment

Level of the average housing units transaction prices noted on the biggest Polish markets, adjusted with the inflation ratio, equals to the levels noted in 2006 or at the turn of 2006 and 2007. Considering changes in time value of money, the current average transaction prices in Warsaw correspond with those noted in Q3 2006.

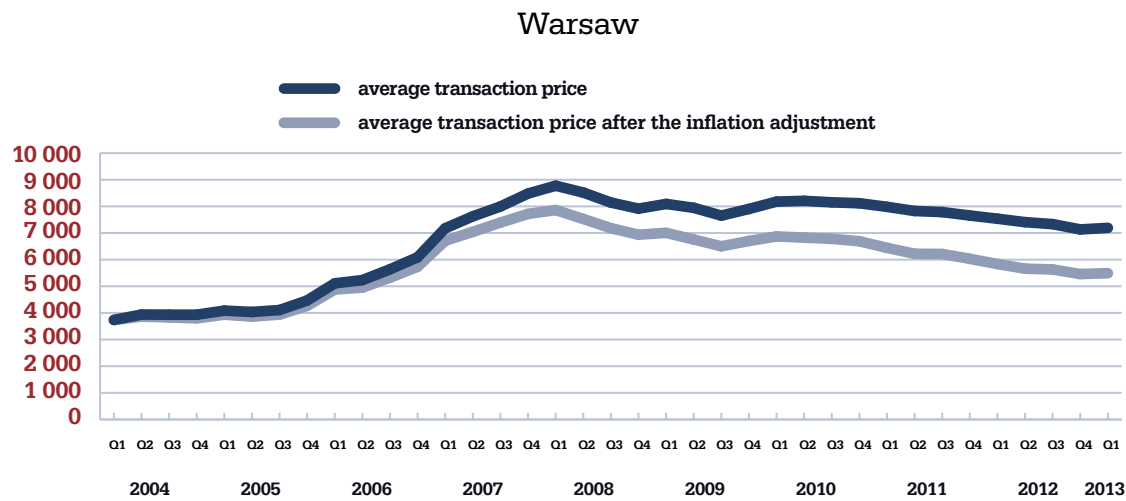
The table No. 13 presents the total average prices of a flat of 50 sq.m., noted in Warsaw in Q3 2006 and in Q1 2013. In Q1 2013, the average price of such a flat amounted to **PLN 359 600**, while in Q3 2006 it amounted to **PLN 281 837** – nominal price increased by **PLN 77 763**. However, calculation of the average price noted in Q3 2006 with the inflation ratio proved that the value of exemplary flat in Q3 2006 and Q1 2013 was similar.

Table 13. Total average transaction prices of housing unit of 50 sq. m. floor area in Warsaw

	average transaction price	average transaction price after the inflation adjustment
Q1 2013	PLN 359 600	PLN 274 551
Q3 2006	PLN 281 837	PLN 266 132

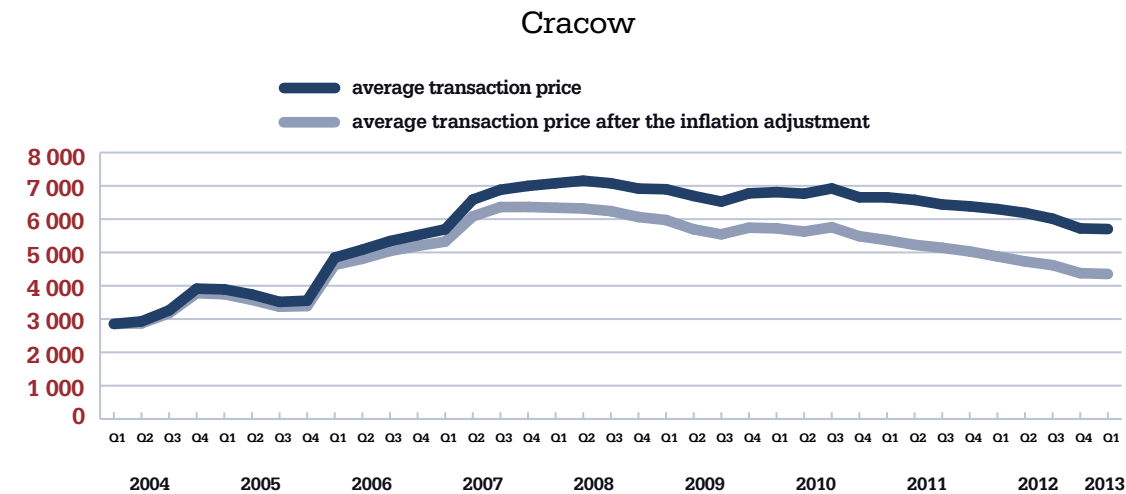
Source: AMRON

Chart 23. Average transaction prices of a sq. m. of housing unit in selected cities in Q1 2004 – Q1 2013

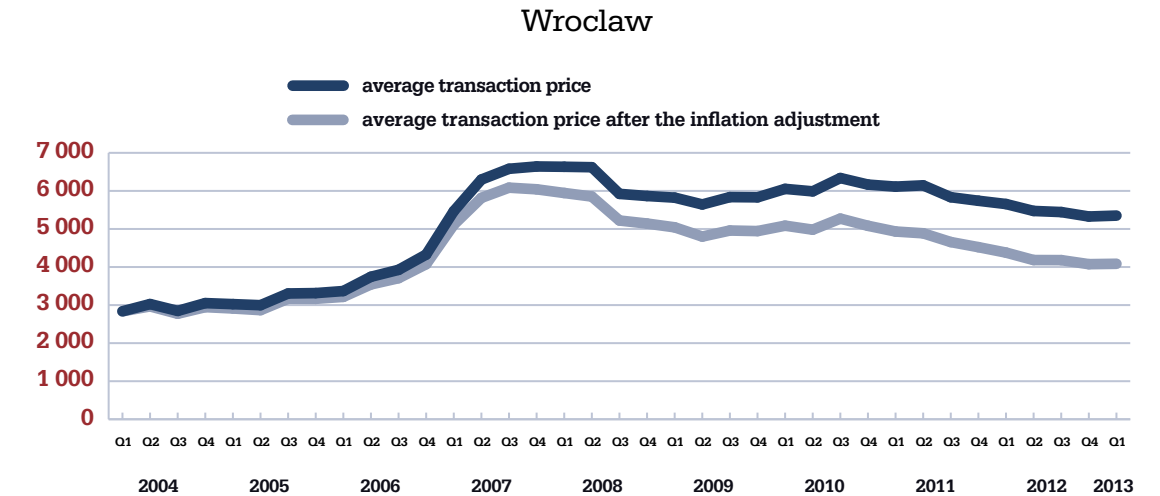


Source: AMRON

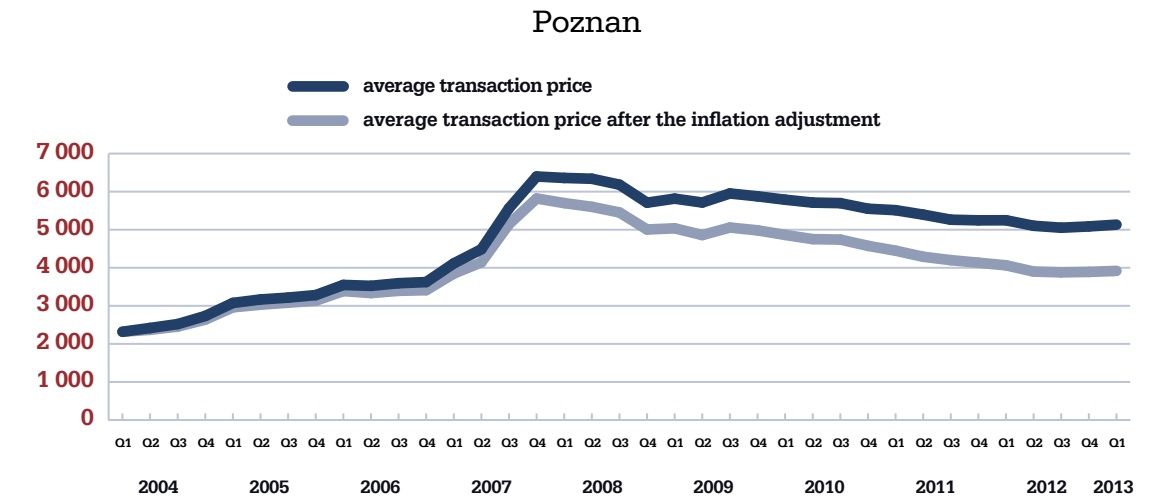
In Cracow, level of average transaction prices noted in Q1 2013 was equal to the price level noted in Q1 2006. The smallest changes were noted in Poznan, where price level was similar to the level noted in Q2 2007. In Poznan, however, prices did not increase as much and as fast as in other cities and that fact explains the difference.



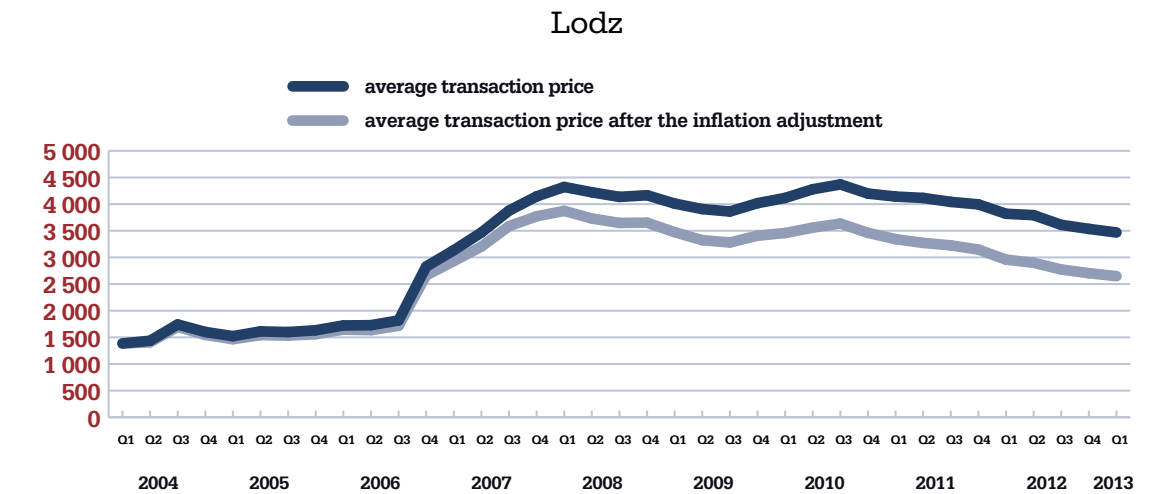
Source: AMRON



Source: AMRON

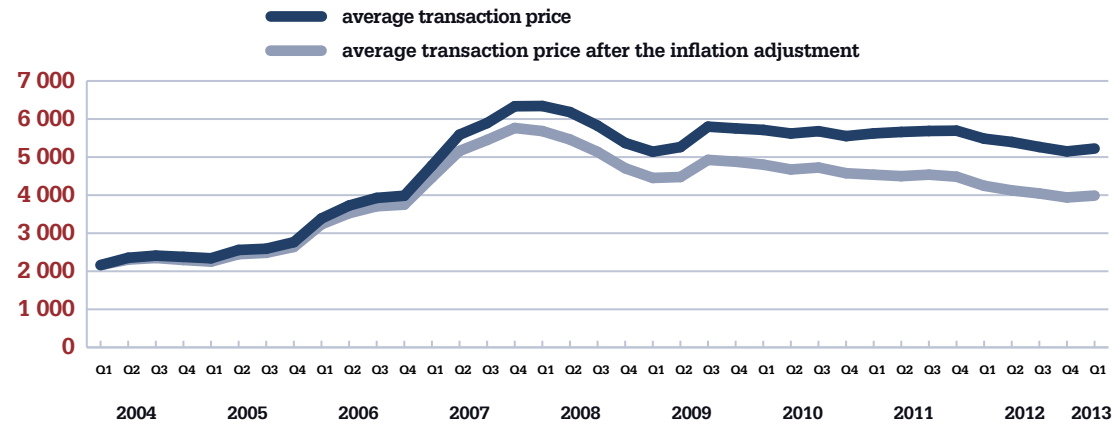


Source: AMRON



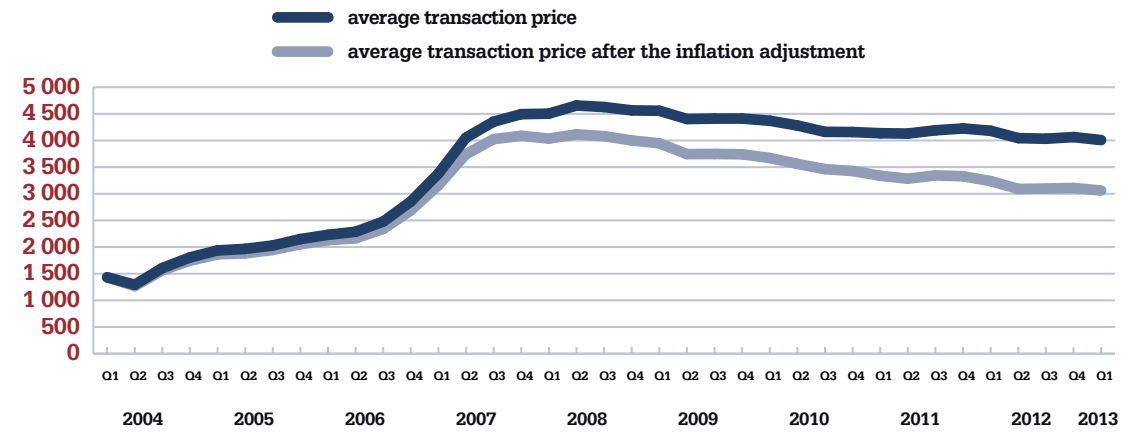
Source: AMRON

Gdansk



Source: AMRON

Bialystok



Source: AMRON

Commentary to the Report – Quarter of miracles

– Professor Jacek Łaszek, Warsaw School of Economics



That was an interesting quarter, indeed. A scheme of gradually falling credit availability and mortgage finance on one hand and growing production and unsold stock on the other hand, which had been functioning for a number of years, was broken. The process of creeping slide of developer's housing prices on primary markets in major cities was broken as well. But it seems much more interesting to find out, how did it happen.

From January 1, 2013 the 'Family on It's Own' Programme, which was an important demand creating factor, has been terminated, but despite that, the demand did not drop drastically. To make it even more interesting, as a result of Monetary Policy Council decision, interest rates on housing loans diminished, what resulted in loans availability increase, but the drop in mortgage lending results was so dramatic that it may be considered as breakdown. In spite of the fact that housing loans availability was - up to now - the most important factor influencing on housing demand in major cities and - at the same time - a crucial factor of housing prices, the breakdown on mortgage market and terminating state subsidies resulted not in drop, but in increase of prices level on Warsaw primary market, as well as on some other Polish major markets, while stock of unsold dwellings is still significant. Does it mean that the basic economic principles, whatever they are, started to work the opposite way? No, that is how the real estate market and the real economy works,

and precise knowledge and analysis of facts shall allow us to find a reasonable explanation.

Due to restricted credit policies, banks are rather reluctant in mortgage granting. At the same time, customers potentially interested in housing purchase for own needs refrain from long-term commitments in uncertain economic reality. But instead, new investors started to act on the market, looking for some alternative investments. This is only a stream of forced rents, triggered, most probably unwittingly, by the monetary policy as a tool affecting the sector demand. Unfortunately no one knows, how long will it work - one quarter or four quarters. We do not know, how much savings will flow on this market and if it won't be kept away by fast prices increases and drops of the rents, or finally, drops of gold prices (alternative investments).

This interesting episode shows, how hard it is to build formalised models of real estate markets. As far as it is relatively easy to build an indicators of excessive tensions or demand models basing on fundamental factors, treating flat as an asset with related arbitration makes formalised models useless. And it is only a half of our motivations. What's left is rating analysis basing on good understanding and quantification of real processes.

Expert's comments published in AMRON-SARFiN Report reflect authors' opinions, which not always are consistent with opinions presented by Polish Banks Association and AMRON Centre.

AMRON and SARFiN Systems



System for Analysis and Monitoring of Real Estate Market Transactions

AMRON System is a standardized, nationwide database on real estate prices and values, equipped with advanced reporting and analytical modules for monitoring of developments on the property market. System was established in 2004 in response to the banking supervisory requirements related to credit risk management and monitoring security instruments for mortgage lending. Since 2010, System is available for all real estate market participants. Our goal is to create a comprehensive database of the real estate market. AMRON provides quick and direct access to the reliable information necessary for all participants on the market.

Our offer also includes periodic analytical publications and reports on price changes of housing units, construction plots and rural areas in selected provincial real estate markets available on AMRON website, as well as individual reports prepared accordingly to the detailed specifics of the market segment, location and time period. AMRON Centre cooperates with commercial and cooperative banks, insurance companies, Agricultural Property Agency, real estate appraisers and realtors, as well as with developers, financial advisors and municipalities. AMRON database is also available for National Bank of Poland and General Prosecutor's Office.

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System for Analysis of Real Estate Financing Market

Advantaging of the forum of Polish Banks Association to exchange, for business purposes, information on the number and size of housing loans. banks have adopted the principle of access to and sharing of these data on a monthly basis. In exchange for its information input, any participating bank has the possibility of assessing market volumes and dynamics and of identifying its own position on that market, based on the reciprocity principle. The information generated in the system reflects some 95% of the market for retail lending.

SARFiN also develops new services for banks and their customers: a loan affordability index, evaluation and estimation of the potential of the real estate lending market and the presentation of "risk maps" for different regions.

SARFiN is an additional source of information for banks and enables them to verify the trends in the real estate financing market.

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In addition to the data collected in the AMRON and SARFiN Systems, this Report also includes data from Bank Gospodarstwa Krajowego, Central Statistical Office and National Bank of Poland.

Opracowanie graficzne:
Stämpfli
Stämpfli Polska Sp. z o.o.
www.staempfli.pl