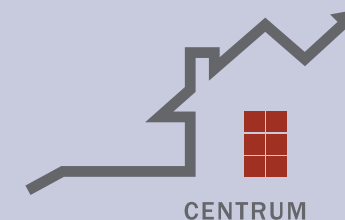


# AMRON-SARFiN Report

on housing loans  
and real estate transaction prices



**AMRON**

# 1/2017

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## Report in numbers

Q1 2017		change Q1 2017 / Q4 2016
<b>PLN 390.114 billion</b>	total housing loans debt	<b>0.83%</b> ↓
<b>2.083 million</b>	number of active loan agreements	<b>1.24%</b> ↑
<b>50 238</b>	number of concluded agreements	<b>19.84%</b> ↑
<b>PLN 11.010 billion</b>	value of concluded agreements	<b>12.58%</b> ↑
<b>PLN 219 030</b>	average value of a housing loan	<b>6.11%</b> ↓
<b>208.14 points</b>	Housing Availability Index (HAI M3)	<b>11.33 points</b> ↑
<b>44.52%</b>	share of new housing loans with LtV above 80%	<b>0.82 p.p.</b> ↓
<b>98.42%</b>	share of new housing loans in PLN, by value	<b>0.38 p.p.</b> ↑
<b>1.04%</b>	share of new housing loans in EUR, by value	<b>0.22 p.p.</b> ↓
<b>63.57%</b>	share of new housing loans with lending period of 25-35 years	<b>0.64 p.p.</b> ↓
<b>PLN 435 495</b>	total average transaction price of housing unit in Warsaw	<b>0.79%</b> ↑
<b>PLN 7 659</b>	average transaction price per square meter of a dwelling in Warsaw	<b>1.76%</b> ↑

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## Introduction – about the Report

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



Dear Readers,

It's already the thirty-first issue of the AMRON Centre Report published by Polish Banks Association. Every quarter, for almost 8 years, we have systematically provided you with updated information on the results of Polish banks' lending activity in the area of mortgage loans, as well as on trends and transaction prices on the residential market. This time we present the results of Q1

2017 with reference to the results from several previous periods.

A significant new element of the Report is the analysis of private rent market and rent rates, published hereto for the first time. It was possible thanks to Mzuri, which started to supply AMRON database with information on housing rents. At this point I would like to invite all entities engaged on housing rent market to cooperate with us.

Number of housing loans granted in Q1 2017 exceeded 50 thousand, which meant an increase in lending activity by almost 20% in comparison to the previous quarter – such increase has not been observed on Polish market since mortgage boom in 2006 – 2008 and the following period of market reaction to subprime mortgage crisis in 2010.

The developers' sector also does not slow down. Developers are announcing another record-breaking year, in which regardless of banks' clients applying for a loan for (another) new dwelling, more and more investors are able to finance flat purchases with cash. As far as incidental, in my opinion, increase in lending activity in Q1 2017 was caused by

reopening of government 'Flat for Youth' Programme, systematic increase in number of cash purchases of dwellings corresponds to financial market situation, especially lack of attractive deposit offers. Moreover, investing in real estate is Poles' natural reaction to political instability. Poles still find real estate purchase as the safest form of a long-term investment, perhaps even as an element of pension security. Fortunately, these are not speculative transactions, because rapid increase in housing prices is unlikely to appear in the coming years. On the one hand, it is assured by developers in increased number of obtained building permits as well as increased number of started investments. On the other hand, lending restrictions resulting from Recommendation S are aimed at preventing banks from financing price bubble. Act on mortgage loans and the supervision of mortgage brokers and agents adopted in February 2017 will enter into force on July 21 this year and will significantly slow down banks' lending activity due to the increased loan costs and more complicated granting procedure.

Recognition should be given to high elasticity of the developers' sector, which responds to rising demand on housing properties. In comparison to Q1 2016, number of issued construction permits increased by more than 42%, number of started constructions – by almost 29% and number of completed housing units – by 8%. It prevents prices increase on primary market. Additionally, price requirements defined in 'Flat for Youth' Programme – due to relevant share of transactions under the Programme in all concluded transactions – even caused incidental decreases in transaction prices.

In Q1 2017 significant increase in average unit transaction price was recorded only in Warsaw – by PLN 132 per square meter. However,

decreases in prices were noted in Lodz and Gdansk – by PLN 169 /sq.m. and PLN 126 /sq.m. respectively.

Despite spectacular results of banking sector in mortgage lending in Q1 2017 and low transaction prices as well as record-low PLN exchange rate, **we maintain our forecast for banks' lending activity level in 2017 – it will be lower than in 2016, not exceeding the number of 178 thousand granted loans and total value of PLN 39 million.**

Enjoy reading. 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](mailto: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.

## Analysis of market environment

Polish housing sector does not slow down, both in terms of construction and real estate financing. Despite high supply and record-high sales, Poland still suffers from dwellings deficit, especially in developing cities. Financial situation of households is getting better, credit interest rate is on a record-low level, deposit interest rates are even negative – all these factors influence Poles' propensity to buy flats, not only for own use, but also more often as an investment, which in turn results in increasing fraction of cash purchases on real estate market.

The most important factors affecting the situation on real estate market and mortgage market in Q1 2017 were:

- rising inflation during last few months and negative interest rates have caused that depositing money in bank started to incur losses, which led to higher propensity to invest in housing properties for rent;
- systematic decrease of unemployment rate, rise of Poles' incomes and slightly better results of national economy in Q1 2017 fill consumers with optimism, which translates into consumer confidence indicator increase;
- decrease of PLN/CHF exchange rate to PLN 3.98 on March 21, 2017, which was less by PLN 0.15 in comparison to January 1, 2017, has

improved CHF borrowers situation and resulted in decrease in total housing loans debt in Poland;

- reopening 'Flat for Youth' Programme for applications for funding borrowers' downpayment has initiated a race for subsidies, which resulted in record-high number of applications submitted to banks;
- increase of required own contribution in January 1, 2017 as stated in Recommendation S on good practices related to mortgage-secured credit exposures did not influence mortgage market in significant way;
- historically low interest rates have prevented (as for now) problems with repayment of housing loans due to exhaustion of subsidies to the loans granted under the 'Family on Its Own' Programme.

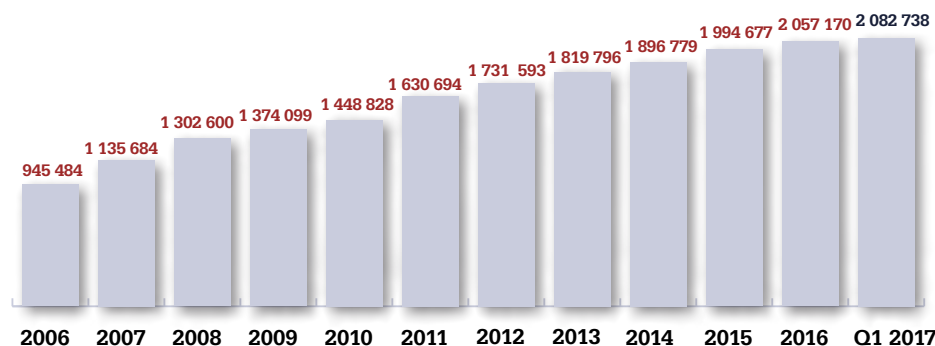
In a few years perspective couple of factors can appear, which may potentially limit dwellings sales. 'Flat for Youth' Programme will be closed in the next year and inflation rate increase will translate into rise in interest rates, which on the one hand will cause higher costs of a loan, but on the other hand deposit rates will become more attractive, what can substitute purchases of real estate as a form of investment. However, there are no macroeconomic reasons to predict sharp demand decline.

## Situation on housing loans market

### Number of active housing loans

In Q1 2017, an increase in total number of active housing loans amounted to **25 568** agreements, i.e. **1.24%** in comparison to the end of Q4 2016. On March 31, 2017, the total housing loans portfolio accounted for **2 082 738** agreements.

Chart 1. Total number of active housing loans in 2006 – Q1 2017



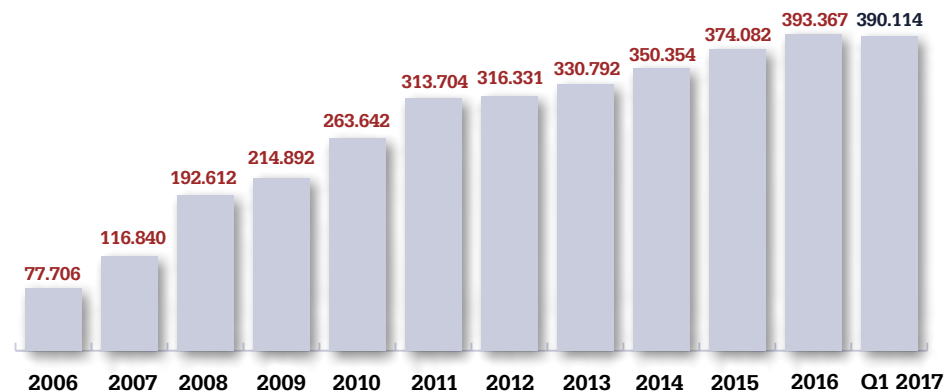
Source: Polish Banks Association – SARFiN

### Total housing loans debt

At the end of March of the current year, total outstanding value of mortgage loans equalled to **PLN 390.114 billion**. This meant a decrease by **0.83%** in relation to the previous quarter, i.e. nominally by **PLN 3.253 billion**. With an increase in number of active loan agreements, this decrease should be attributed to the change of PLN/CHF exchange rate.

Chart 2. presents changes in value of total housing loans debt (PLN billion) of Polish households since 2006.

Chart 2. Total debt from housing loans in 2006 – Q1 2017 (PLN billion)



Source: Polish Banks Association – SARFiN, NBP

### Number and value of new housing loans

In Q1 2017, a significant growth in sale of housing loans in Poland was noted. The total number of new housing loan agreements concluded between January and March amounted to **50 238**, i.e. **19.84%** more than in the previous quarter, while their value was higher by **12.58%** and amounted to **PLN 11.010 billion**.

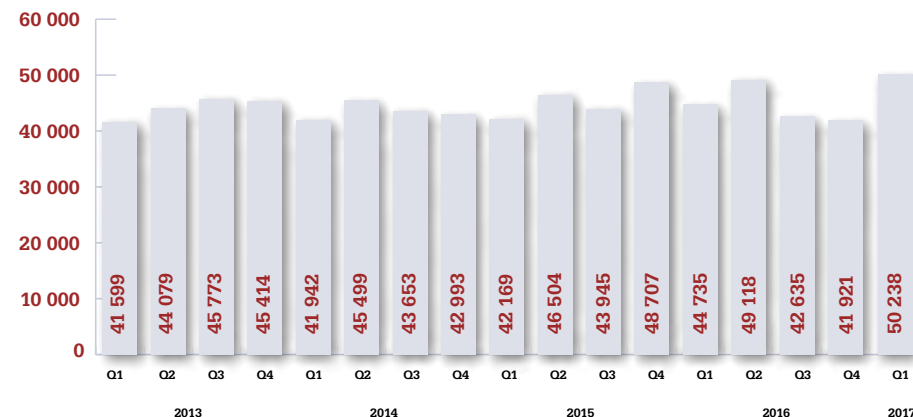
The results of banks' lending activity were also significantly better in comparison to the same period last year. The number of granted loans increased by **12.30%** (nominally **5 503** agreements) and their value – by **16.73%** (nominally by **PLN 1.578 million**).

Table 1. Value and number of new housing loans in Q1 2013 – Q1 2017

quarter	value (PLN million)	change/previous quarter	number	change/previous quarter
<b>Q1 2013</b>	8.017	9.34% ↓	41 599	12.46% ↓
<b>Q2 2013</b>	9.160	14.25% ↑	44 079	5.96% ↑
<b>Q3 2013</b>	9.531	4.05% ↑	45 773	3.84% ↑
<b>Q4 2013</b>	9.767	2.48% ↑	45 414	0.78% ↓
<b>Q1 2014</b>	8.854	9.35% ↓	41 942	7.65% ↓
<b>Q2 2014</b>	9.577	8.17% ↑	45 499	8.48% ↑
<b>Q3 2014</b>	9.232	3.61% ↓	43 653	4.06% ↓
<b>Q4 2014</b>	9.161	0.77% ↓	42 993	1.51% ↓
<b>Q1 2015</b>	8.978	1.99% ↓	42 169	1.92% ↓
<b>Q2 2015</b>	10.058	12.03% ↑	46 504	10.28% ↑
<b>Q3 2015</b>	9.704	3.52% ↓	43 945	5.50% ↓
<b>Q4 2015</b>	10.580	9.03% ↑	48 707	10.84% ↑
<b>Q1 2016</b>	9.433	10.85% ↓	44 735	8.15% ↓
<b>Q2 2016</b>	10.607	12.45% ↑	49 118	9.80% ↑
<b>Q3 2016</b>	9.676	8.78% ↓	42 635	13.20% ↓
<b>Q4 2016</b>	9.780	1.07% ↑	41 921	1.67% ↓
<b>Q1 2017</b>	11.010	12.58% ↑	50 238	19.84% ↑

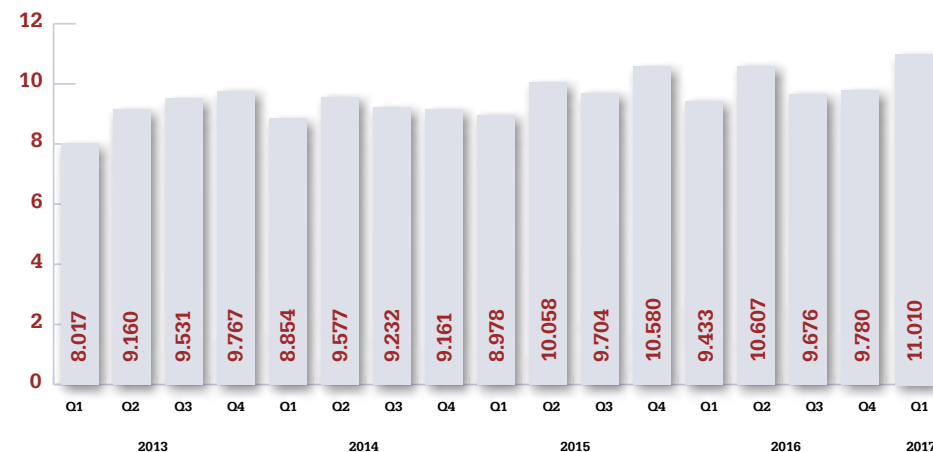
Source: Polish Banks Association – SARFiN

Chart 3. Number of new loan agreements in Q1 2013 – Q1 2017



Source: Polish Banks Association – SARFiN

Chart 4. Value of new loan agreements in Q1 2013 – Q1 2017 (PLN billion)



Source: Polish Banks Association – SARFiN

## Loan currency

In Q1 2017, changes in the currency structure of new housing loans in terms of value were minimal, comparing to the previous quarter. In analysed period, decreases in all surveyed currency categories were noted: from **0.09%** to **0.04%** in the share of loans denominated in CHF, by **0.22 p.p.** in the share of loans denominated in EUR and by **0.11 p.p.** in other foreign currencies. In Q1 2017, the share of PLN loans amounted to **98.42%**, i.e. more by **0.38 p.p.** in comparison to Q4 2016.

Table 2. Currency structure of the value of new loans in Q1 2013 – Q1 2017

quarter	PLN	CHF	EUR	other
<b>Q1 2013</b>	98.83%	0.01%	1.11%	0.06%
<b>Q2 2013</b>	99.05%	0.01%	0.89%	0.05%
<b>Q3 2013</b>	99.35%	0.00%	0.61%	0.04%
<b>Q4 2013</b>	99.07%	0.01%	0.91%	0.02%
<b>Q1 2014</b>	99.48%	0.00%	0.51%	0.01%
<b>Q2 2014</b>	99.69%	0.00%	0.28%	0.03%
<b>Q3 2014</b>	99.13%	0.01%	0.67%	0.19%
<b>Q4 2014</b>	98.81%	0.02%	0.81%	0.36%
<b>Q1 2015</b>	97.88%	0.08%	1.49%	0.55%
<b>Q2 2015</b>	98.75%	0.02%	0.84%	0.39%
<b>Q3 2015</b>	98.45%	0.03%	1.01%	0.51%
<b>Q4 2015</b>	98.63%	0.09%	0.87%	0.41%
<b>Q1 2016</b>	98.44%	0.03%	0.97%	0.56%
<b>Q2 2016</b>	98.56%	0.04%	0.98%	0.42%
<b>Q3 2016</b>	98.44%	0.04%	1.06%	0.46%
<b>Q4 2016</b>	98.04%	0.09%	1.26%	0.61%
<b>Q1 2017</b>	98.42%	0.04%	1.04%	0.50%

Source: Polish Banks Association – SARFiN

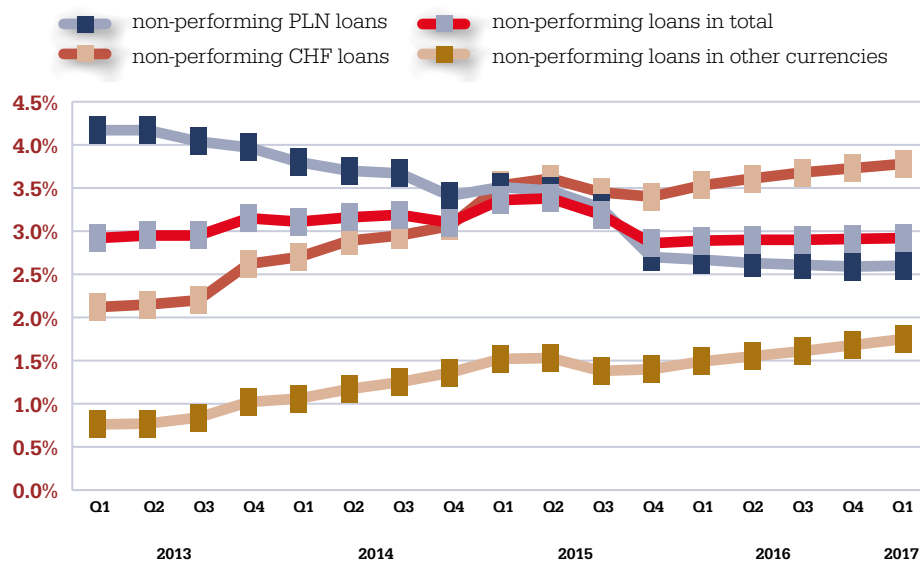
In relation to the same period last year, in Q1 2017 a slight increase in the share of newly granted loans in EUR was recorded – by **0.07 p.p.**, the share of housing loans in PLN and CHF remained at the level of the previous year, and the share of loans denominated in other foreign currencies decreased by **0.06 p.p.**

## Quality structure of mortgage loans portfolio

In Q1 2017, the share of non-performing PLN housing loans in the mortgage portfolio remained at the level of the previous quarter and amounted to **2.60%**. Due to the large share of PLN loans in the overall value structure, the share of non-performing loans in total also remained unchanged in comparison to Q4 2016 and at the end of March 2017 accounted for **2.92%** of all housing loans. The quality of housing loans in foreign currencies was slightly worse in relation to Q4 2016 – share of non-performing CHF loans amounted to **3.78%**, i.e. by **0.05 p.p.** more, and share of non-performing loans in other foreign currencies accounted for **1.75%**, i.e. by **0.07 p.p.** more.

In relation to Q1 2016, a slight increase in the number of loans denominated in foreign currencies with default on payments was noted. Both share of non-performing CHF loans and loans in other foreign currencies increased by **0.25 p.p.** In Q1 2017, **3.43%** of all housing loans denominated in foreign currencies were classified as non-performing.

Chart 5. Share of non – performing loans in total mortgage portfolio in Q1 2013 – Q1 2017



Source: National Bank of Poland

## Average value of a loan

The average value of PLN housing loans granted in Q1 2017 decreased by **PLN 14 406** in comparison to the previous quarter, i.e. by **6.20%** and amounted to **PLN 217 829**. The average value of loans granted in foreign currencies was lower by **PLN 8 171 (2.72%)** and amounted to **PLN 292 624**. Thus, the average value of housing loans in total was also lower than in Q4 2016 – by **PLN 14 252**, i.e. by **6.11%** and amounted to **PLN 219 030**.

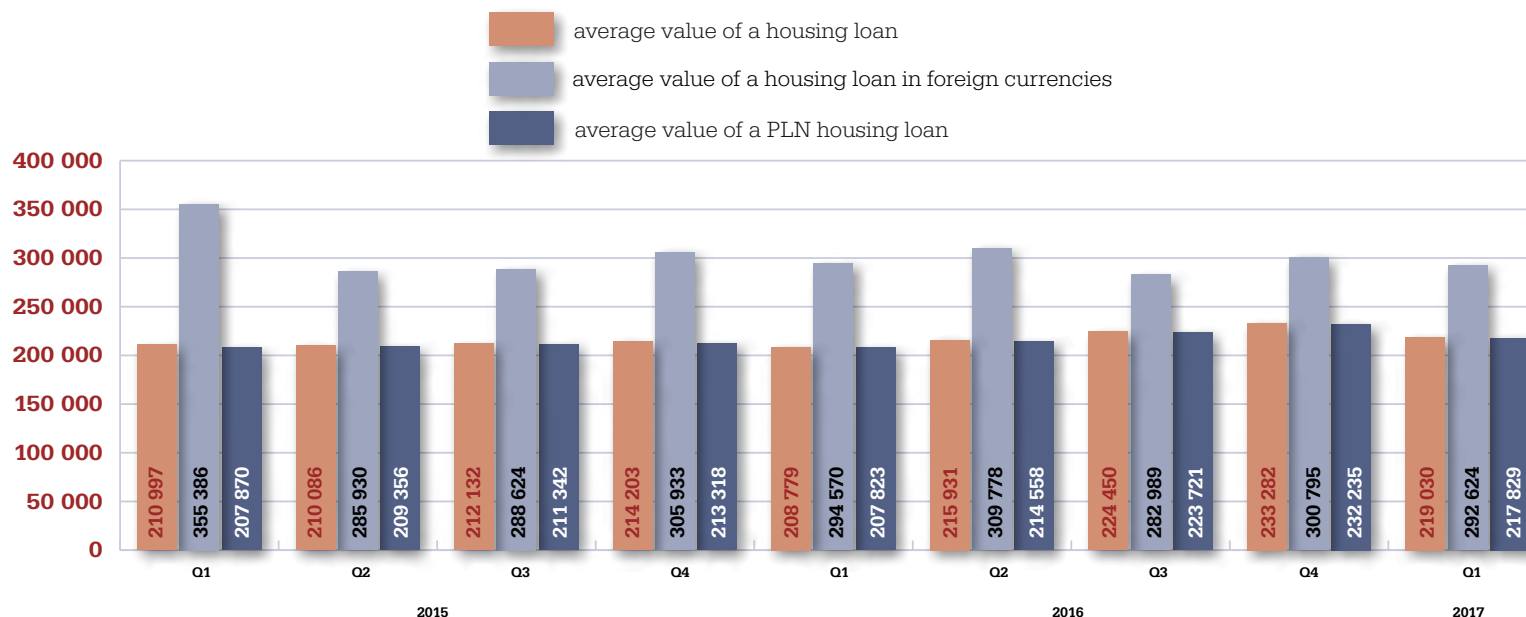
Table 3. Share of non – performing loans in total mortgage portfolio in Q1 2013 – Q1 2017

period	non-performing loans in total	non-performing PLN loans	non-performing CHF loans	non-performing loans in other currencies
<b>Q1 2013</b>	2.92%	4.17%	2.12%	0.76%
<b>Q2 2013</b>	2.95%	4.17%	2.15%	0.77%
<b>Q3 2013</b>	2.95%	4.04%	2.20%	0.84%
<b>Q4 2013</b>	3.15%	3.97%	2.62%	1.02%
<b>Q1 2014</b>	3.11%	3.80%	2.70%	1.06%
<b>Q2 2014</b>	3.16%	3.70%	2.89%	1.17%
<b>Q3 2014</b>	3.19%	3.67%	2.95%	1.25%
<b>Q4 2014</b>	3.10%	3.41%	3.05%	1.35%
<b>Q1 2015</b>	3.36%	3.51%	3.53%	1.52%
<b>Q2 2015</b>	3.38%	3.47%	3.61%	1.53%
<b>Q3 2015</b>	3.19%	3.27%	3.45%	1.38%
<b>Q4 2015</b>	2.85%	2.69%	3.40%	1.40%
<b>Q1 2016</b>	2.89%	2.67%	3.53%	1.49%
<b>Q2 2016</b>	2.90%	2.63%	3.61%	1.55%
<b>Q3 2016</b>	2.90%	2.61%	3.68%	1.61%
<b>Q4 2016</b>	2.91%	2.59%	3.73%	1.68%
<b>Q1 2017</b>	2.92%	2.60%	3.78%	1.75%

Source: National Bank of Poland

In relation to Q1 2016, the average value of a loan (in total) granted during the analysed period increased by **4.91%**, while the average PLN loan was higher by **4.81%** than last year. At the same time, the average value of a denominated loan decreased by **0.66%** in comparison to the same period last year.

Chart 6. Average value of a housing loan, aggregated and by currency in Q1 2015 – Q1 2017



Source: Polish Banks Association – SARFiN

Table 4. Average value of a loan, aggregated and by currency in Q1 2015 – Q1 2017

quarter	average value of a housing loan	average value of a housing loan in foreign currencies	average value of a PLN housing loan
<b>Q1 2015</b>	210 997	355 386	207 870
<b>Q2 2015</b>	210 086	285 930	209 356
<b>Q3 2015</b>	212 132	288 624	211 342
<b>Q4 2015</b>	214 203	305 933	213 318
<b>Q1 2016</b>	208 779	294 570	207 823
<b>Q2 2016</b>	215 931	309 778	214 558
<b>Q3 2016</b>	224 450	282 989	223 721
<b>Q4 2016</b>	233 282	300 795	232 235
<b>Q1 2017</b>	219 030	292 624	217 829

Source: Polish Banks Association – SARFiN

## Structure of new loans, by amount

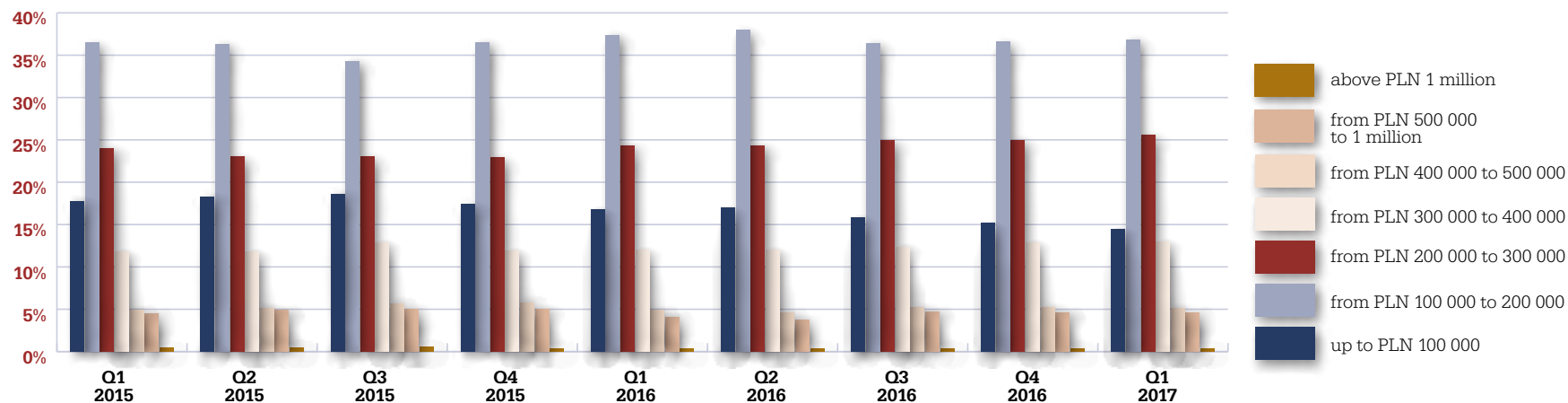
In Q1 2017, changes in structure of newly granted housing loans in terms of value were minimal. The popularity of loans amounting up to PLN 100 thousand slightly decreased (by **0.68 p.p.**) – their share in the new loans portfolio accounted for **14.48%** in comparison to the previous quarter. The share of amount category between PLN 200 and 300 thousand increased by **0.55 p.p.** and equaled to **25.55%**, while the share of other categories has remained unchanged.

In relation to Q1 2016, the largest change was recorded in the category of loans up to PLN 100 thousand – their share in the portfolio of new housing loans decreased by **2.36 p.p.** The percentage of loans in the range from PLN 100 to 200 thousand also decreased – by **0.53 p.p.**

The popularity of loans for amount above PLN 1 million did not change and in other categories, there were noted slight increases. The share of

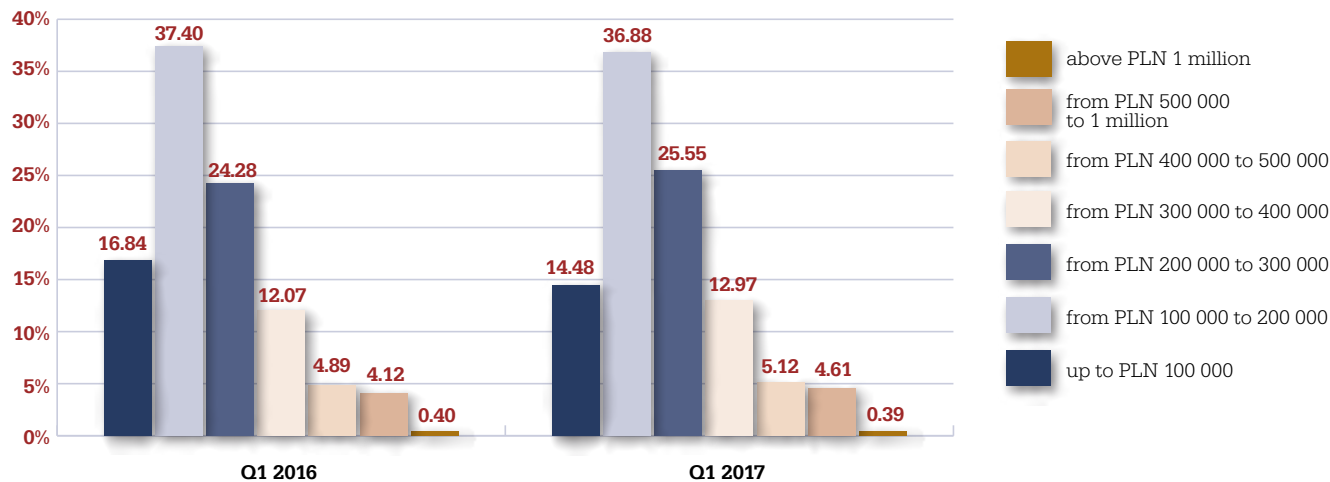
loans with value from PLN 200 to 300 thousand increased the most – by **1.27 p.p.**

Chart 7. Structure of the new loans amount in Q1 2015 – Q1 2017



Source: Polish Banks Association – SARFiN

Chart 8. Structure of the new loans amount – comparison of Q1 2016 and Q1 2017



Source: Polish Banks Association – SARFiN

Table 5. Structure of the new loans amount in Q1 2015 – Q1 2017

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
<b>up to PLN 100 000</b>	17.80%	18.29%	18.59%	17.39%	16.84%	16.98%	15.84%	15.17%	14.48%
<b>from PLN 100 000 to 200 000</b>	36.47%	36.35%	34.28%	36.50%	37.40%	37.96%	36.40%	36.60%	36.88%
<b>from PLN 200 000 to 300 000</b>	24.04%	23.00%	23.03%	22.90%	24.28%	24.31%	24.91%	25.00%	25.55%
<b>from PLN 300 000 to 400 000</b>	11.86%	11.81%	12.89%	11.95%	12.07%	12.02%	12.39%	12.92%	12.97%
<b>from PLN 400 000 to 500 000</b>	4.93%	5.14%	5.64%	5.78%	4.89%	4.56%	5.29%	5.24%	5.12%
<b>from PLN 500 000 to 1 million</b>	4.46%	4.89%	5.02%	5.06%	4.12%	3.76%	4.75%	4.66%	4.61%
<b>above PLN 1 million</b>	0.44%	0.52%	0.55%	0.42%	0.40%	0.41%	0.42%	0.41%	0.39%

Source: Polish Banks Association – SARFiN

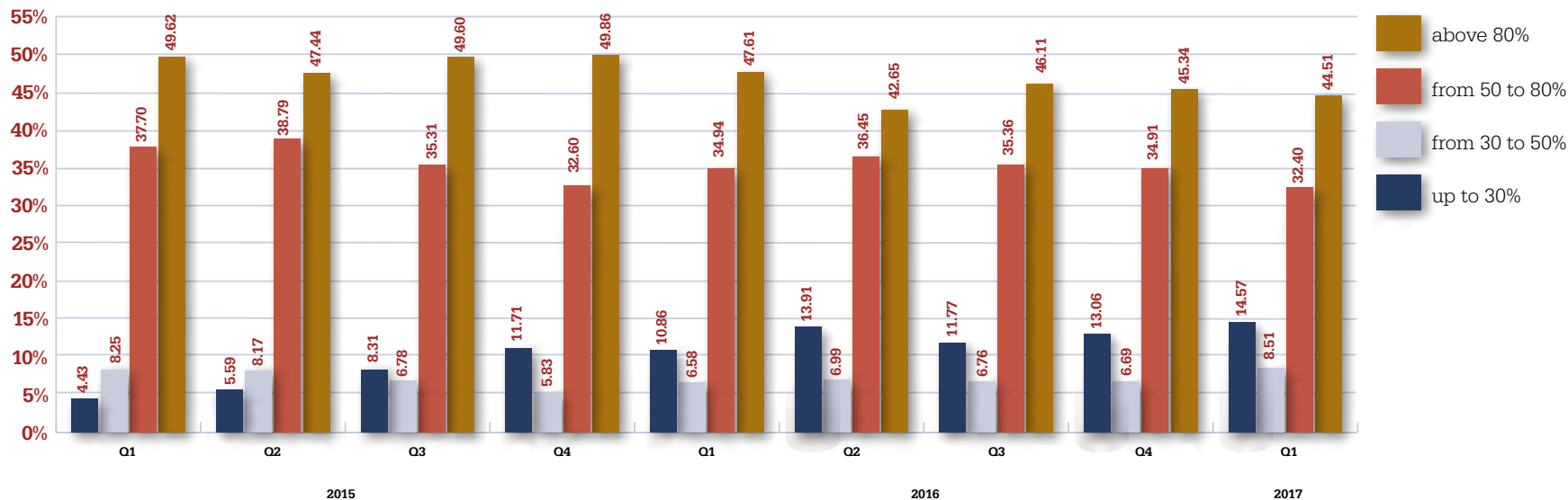
## Structure of the LtV ratio

Despite raised level of own contribution up to 20%, housing loans with LtV ratio above 80% were still the most popular – in Q1 2017, they amounted to **44.52%** of all new loans, which was less by **0.82% p.p.** in comparison to the previous quarter. In the period from January to March this year, the share of loans with LtV ratio from 50 to 80% decreased by **2.51 p.p.** and accounted for **32.40%** of all newly granted loans. Shares of other LtV categories increased, i.e. loans with LtV level up to 30% accounted for **14.57%**, which meant an increase by **1.51 p.p.**, while

loans with LtV between 30 and 50% were the least popular – their share increased by **1.82 p.p.** and amounted to **8.51%**.

The share of loans with a maximum own contribution of 20% and with LtV between 50 and 80% decreased also on an annual basis – respectively by **3.10 p.p.** and by **2.54 p.p.** The popularity of housing loans with LtV ratio up to 30% and with LtV from 30 to 50% increased – respectively by **3.71 p.p.** and **1.93 p.p.**

Chart 9. Structure of LtV ratio of newly granted loans in Q1 2015 – Q1 2017, in terms of value



Source: Polish Banks Association – SARFiN

Table 6. Structure of LtV ratio of newly granted loans in Q1 2015 – Q1 2017

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
<b>up to 30%</b>	4.43%	5.59%	8.31%	11.71%	10.86%	13.91%	11.77%	13.06%	14.57%
<b>from 30 to 50%</b>	8.25%	8.17%	6.78%	5.83%	6.58%	6.99%	6.76%	6.69%	8.51%
<b>from 50 to 80%</b>	37.70%	38.79%	35.31%	32.60%	34.94%	36.45%	35.36%	34.91%	32.40%
<b>above 80%</b>	49.62%	47.44%	49.60%	49.86%	47.61%	42.65%	46.11%	45.34%	44.51%

Source: Polish Banks Association – SARFiN

## Housing loans in major Polish cities

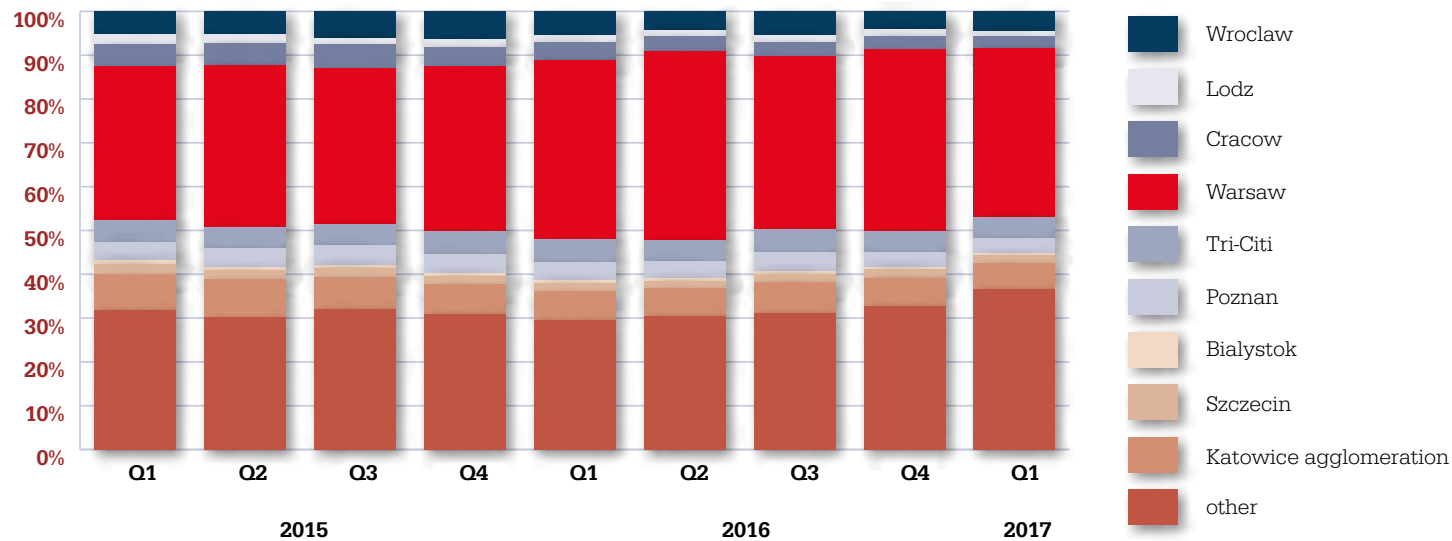
In Q1 2017, **63.39%** of housing loans were granted in the largest Polish cities, which was less by **3.78 p.p.** on a quarterly basis. This was mainly due to a decrease in Warsaw share in the structure of newly granted loans – by **2.82 p.p.** Thus, loans granted in the capital of Poland accounted for

**38.55%** of the total volume of loans granted in the analysed period. In other large agglomerations, slight changes were noted, which did not exceed **0.50 p.p.**

In relation to the same period last year, Warsaw's share of new housing loans diminished by **2.43 p.p.** Significant decrease was also recorded in Cracow (by **1.24 p.p.**), in Wroclaw (by **1.03 p.p.**) and in Poznan (by

**0.92 p.p.**). On annual basis, the total percentage of mortgages in the nine largest Polish agglomerations decreased by **6.95 p.p.**

Chart 10. Value of newly granted loans in major Polish cities in Q1 2015 – Q1 2017



Source: Polish Banks Association – SARFIN

Table 7. Value of newly granted loans in major Polish cities in Q1 2015 – Q1 2017

quarter	other	Katowice agglomeration	Szczecin	Bialystok	Poznan	Tri-Citi	Warsaw	Cracow	Lodz	Wroclaw
<b>Q1 2015</b>	31.89%	8.09%	2.36%	0.89%	4.07%	5.08%	35.05%	5.20%	2.09%	5.28%
<b>Q2 2015</b>	30.20%	8.60%	2.06%	0.71%	4.31%	4.81%	37.08%	5.00%	1.96%	5.27%
<b>Q3 2015</b>	32.10%	7.20%	2.14%	0.66%	4.38%	5.00%	35.54%	5.38%	1.58%	6.02%
<b>Q4 2015</b>	30.98%	6.64%	1.92%	0.63%	4.39%	5.37%	37.43%	4.54%	1.70%	6.41%
<b>Q1 2016</b>	29.66%	6.43%	1.83%	0.65%	4.18%	5.19%	40.98%	3.95%	1.61%	5.52%
<b>Q2 2016</b>	30.53%	6.21%	1.76%	0.62%	3.84%	4.74%	43.27%	3.22%	1.49%	4.31%
<b>Q3 2016</b>	31.22%	6.87%	2.01%	0.66%	4.19%	5.31%	39.40%	3.29%	1.60%	5.44%
<b>Q4 2016</b>	32.83%	6.29%	1.91%	0.63%	3.23%	5.01%	41.37%	3.12%	1.55%	4.06%
<b>Q1 2017</b>	36.61%	5.92%	1.75%	0.57%	3.26%	4.94%	38.55%	2.71%	1.20%	4.49%

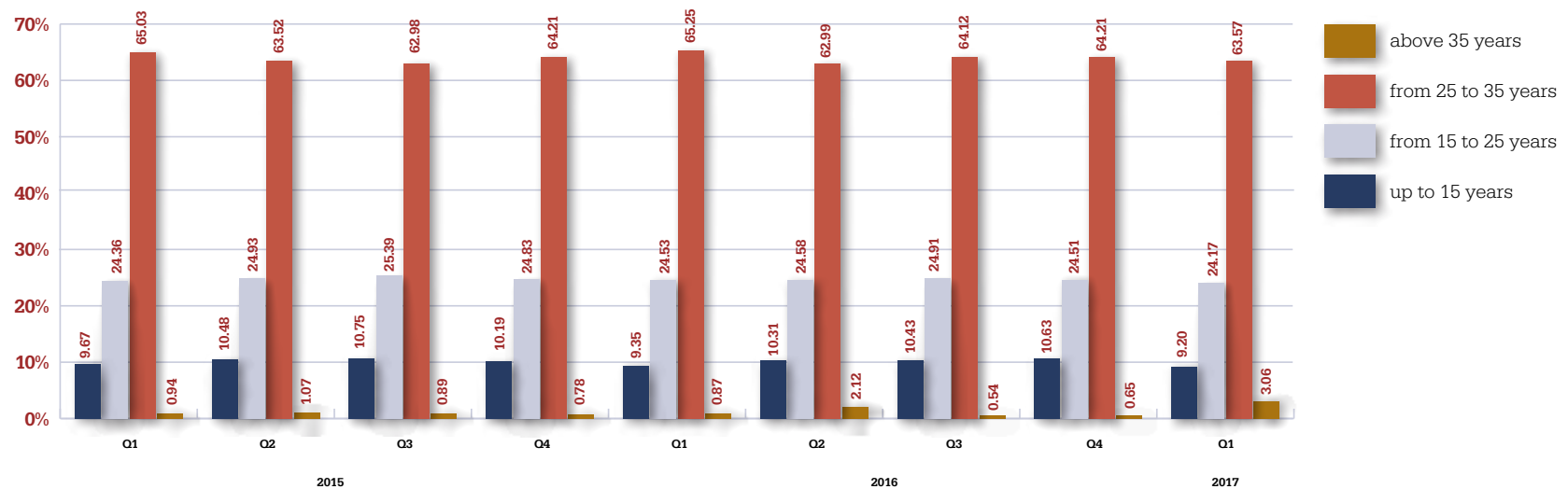
Source: Polish Banks Association – SARFIN

## Lending period

In Q1 2017, share of loans with maturity period above 35 years in the overall structure of new housing loans increased by **2.41 p.p.** in comparison to the previous quarter and amounted to **3.06%**. Decreases were noted in other categories, the largest in case of loans granted for the period up to 15 years – their share amounted to **9.20%**, which was by **1.43 p.p.** less than in Q4 2016.

On annual basis, changes in the structure of newly granted loans due to lending period looked similar. Increase in popularity was observed only in the category of loans with maturity period above 35 years – by **2.20 p.p.** The shares of other categories of housing loans slightly decreased.

Chart 11. Structure of new loans by lending period in Q1 2015 – Q1 2017



Source: Polish Banks Association – SARFiN

Table 8. Structure of new loans by lending period in Q1 2015 – Q1 2017

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
<b>up to 15 years</b>	9.67%	10.48%	10.75%	10.19%	9.35%	10.31%	10.43%	10.63%	9.20%
<b>from 15 to 25 years</b>	24.36%	24.93%	25.39%	24.83%	24.53%	24.58%	24.91%	24.51%	24.17%
<b>from 25 to 35 years</b>	65.03%	63.52%	62.98%	64.21%	65.25%	62.99%	64.12%	64.21%	63.57%
<b>above 35 years</b>	0.94%	1.07%	0.89%	0.78%	0.87%	2.12%	0.54%	0.65%	3.06%

Source: Polish Banks Association – SARFiN

## Housing Availability Index M3 – HAI M3

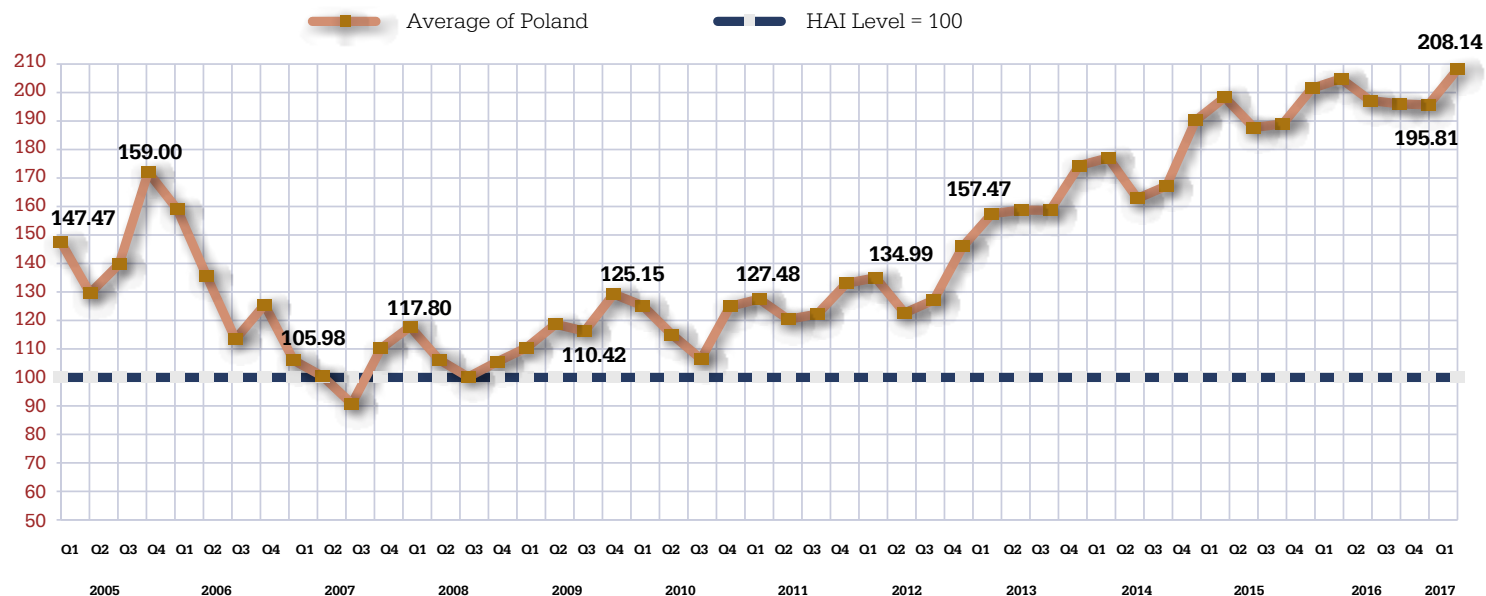
**Housing Availability Index (HAI M3)**, a synthetic measure presented in AMRON-SARFiN Reports, shows quarterly changes in availability of housing units in Poland for the exemplary family comprising of two employed adults with one older child. Significant increase of dwelling availability in Q1 2017 was influenced by the following factors:

- a quarterly decrease of housing prices in monitored cities in order to calculate HAI M3 Index (8 biggest cities) – by **2.40%** in relation to Q4 2016;
- an unnoticeable decrease in the average interest rate of loans granted in Q1 2017 – according to the National Bank of Poland, it diminished by **0.01 p.p.** – the real interest rate of loans granted in Q1 2017 amounted to **4.62%** (in the previous quarter – **4.63%**);

- an increase in the average family income by **3.12%** in Q1 2017 in comparison to the previous quarter;
- the living costs level, which for the Report purposes are expressed as the minimum subsistence level of the previous quarter (calculated as inflation quarter on quarter due to the postponement of announcing the minimum subsistence level by the Institute of Labour and Social Affairs for the next quarter), increased by inflation rate (**0.02%**).

All the aforementioned factors caused that the disposable income for HAI M3 (which is the difference between the family income and the amount of the loan instalment amount, or the value of the minimum subsistence level – in order to calculate the Housing Availability Index the lower amount is taken into account) increased by **3.12%** and therefore the Index increased by **11.33 points** in Q1 2017 (Index level in Q4 2016 amounted to **196.81 points**).

Chart 12. Housing Availability Index M3 for the period from Q1 2005 to Q1 2017

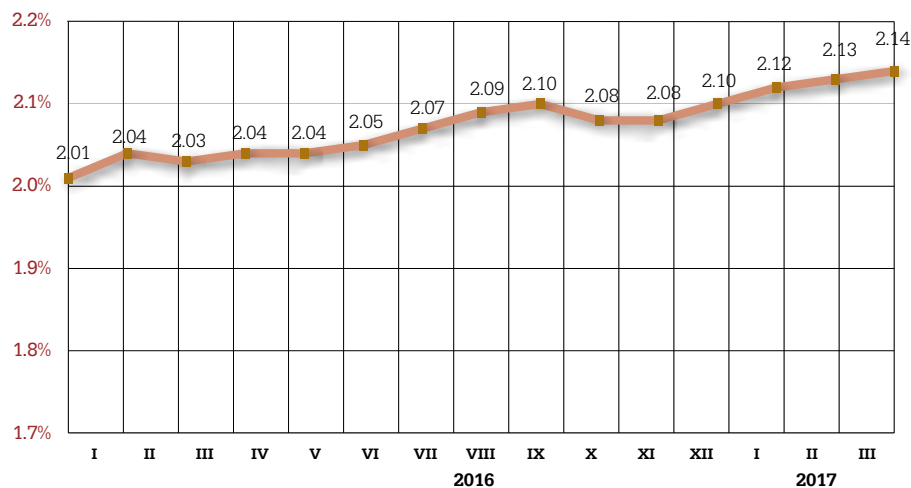


Source: Polish Banks Association

## Average margin levels and mortgage interest rates

The average margin of an exemplary mortgage loan (in amount of PLN 300 000, at the LtV ratio of 75% and granted for the period of 25 years) in Q1 2017 slightly increased and in March amounted to **2.14%** – it meant an increase by only **0.04 p.p.** in comparison to December 2016.

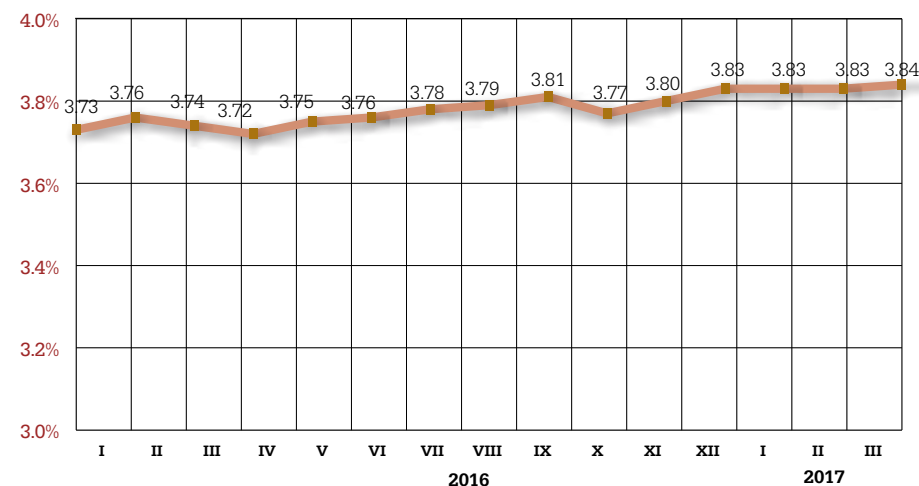
Chart 13. Average margin of a housing loan in January 2016 – March 2017



Source: AMRON Centre based on banks' credit offers

The Monetary Policy Council maintained the NBP's reference rate at the level of **1.50%**, WIBOR 3M remained at the level of **1.73%** and at the end of Q1 2017, the average interest rate amounted to **3.84%**.

Chart 14. Average interest rate of a housing loan in January 2016 – March 2017



Source: AMRON Centre based on banks' credit offers

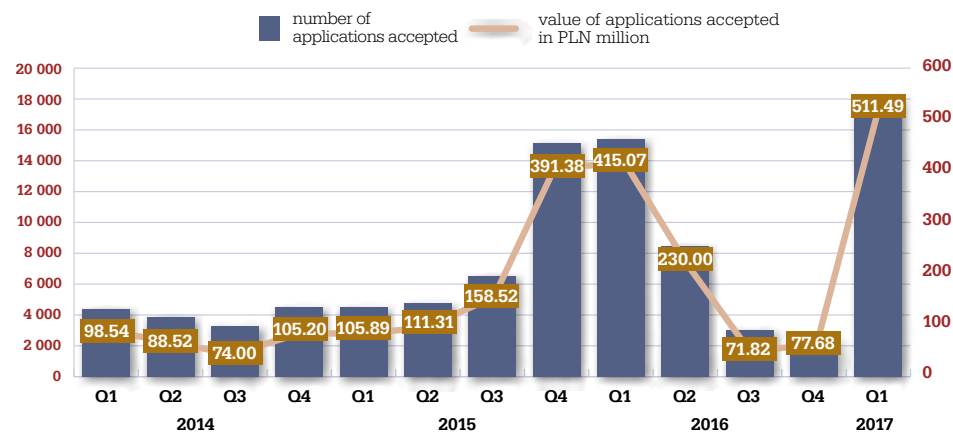
## 'Flat for Youth' Programme

Expanding the catalogue of subsidised dwellings also on secondary market and, paradoxically, the perspective of early ending of available funds has led to a rapid increase in interest in the Programme at the turn of 2015 and 2016. Dozens of applications were also submitted in January this year, after the 50% of reserved funds was released on January 1st. As a result, funds reserved for 2017 were exhausted on January 31st and money reserved for 2018 has been blocked already on April 7th.

In Q1 2017, **18 098** applications for the amount of subsidies accounting for **PLN 511.5 million** were accepted under the 'Flat for Youth' Programme. In the same period, **14 893** loan agreements for a total amount accounting for **PLN 2 491.8 million** and the amount of subsidies accounting for **PLN 414.4 million** were signed. This represented **29.64%** of the number and **22.63%** of the value of all new housing loan agreements signed in the period from January to March this year.

Although the availability of the government subsidies under the 'Flat for Youth' Programme in the largest Polish agglomerations was restricted by the price limits, throughout the whole period of functioning of the Programme, i.e. from January 1, 2014 to March 31, 2017, **94 258** applications for the amount of subsidies accounting for **PLN 2.4 billion** were submitted to the Bank Gospodarstwa Krajowego through lending banks. In the same period, **89 652** loan agreements were concluded on the basis of the Act on state aid in young people first housing purchase for a total amount of **PLN 15.6 billion**. Total amount of the financial support resulting from signed agreements accounted for **PLN 2.3 billion**. Loans granted under the Programme accounted for **12.35%** of total banks' lending activity in terms of value and **15.35%** in terms of number of new loans.

Chart 15. Number and value of subsidy to loan applications approved by banks in Q1 2014 – Q1 2017 – 'Flat for Youth' Programme



Source: BGK

As for March 31, 2017, total amount of state support for borrowers' downpayment and additional financial support to repay part of the housing loan reserved for disbursements (in case of birth or adoption a third child in the period of 5 years from the date of signing the purchase agreement) exceeded the amount of **PLN 2.442 billion**. **8.49%** of this amount was paid from funds reserved for subsidies in 2014, **21.32%** came from the Programme's budget earmarked for 2015, **28.73%** – for 2016, for 2017 – **28.06%** and **13.40%** – from funds for 2018.

The average floor area of a dwelling acquired in the Programme amounted to **53.86 sq.m.** and a detached house – **86.84 sq.m.**, while the average price was equal to **PLN 218.2 thousand** for dwellings and **PLN 291.4 thousand** for houses.

In Q1 2017, the maximum price per square meter of a housing in 'Flat for Youth' Programme was changed only in Gdansk and amounted to **PLN 5 229.40** on the primary market and **PLN 4 278.60** on the secondary market, i.e. more by **PLN 134.75** and **PLN 110.25** respectively.

Table 9. Price limits in 'Flat for Youth' Programme in selected Polish cities – comparison of Q4 2016 and Q1 2017

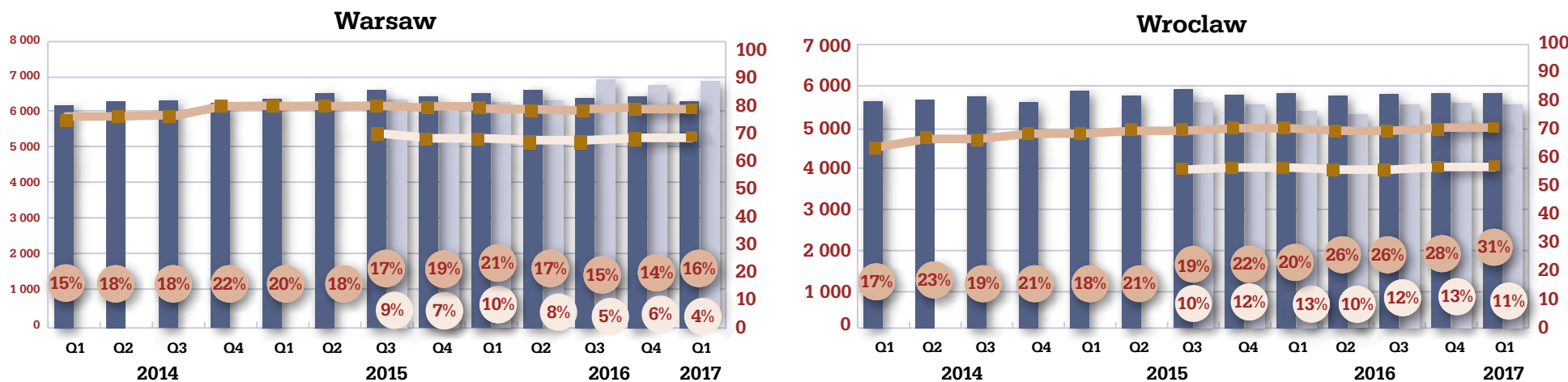
City	price limits in the 'Flat for Youth' Programme – primary market (price per 1 sq. m.)	change on primary market Q1 2017/Q4 2016	price limits in the 'Flat for Youth' Programme – secondary market (price per 1 sq. m.)	change on secondary market Q1 2017/Q4 2016
<b>Warsaw</b>	6 433.43	0	5 263.71	0
<b>Wroclaw</b>	5 259.10	0	4 302.90	0
<b>Gdansk</b>	5 229.40	134.75	4 278.60	110.25
<b>Cracow</b>	5 247.55	0	4 293.45	0
<b>Poznan</b>	5 711.20	0	4 672.80	0
<b>Lodz</b>	4 200.90	0	3 437.10	0

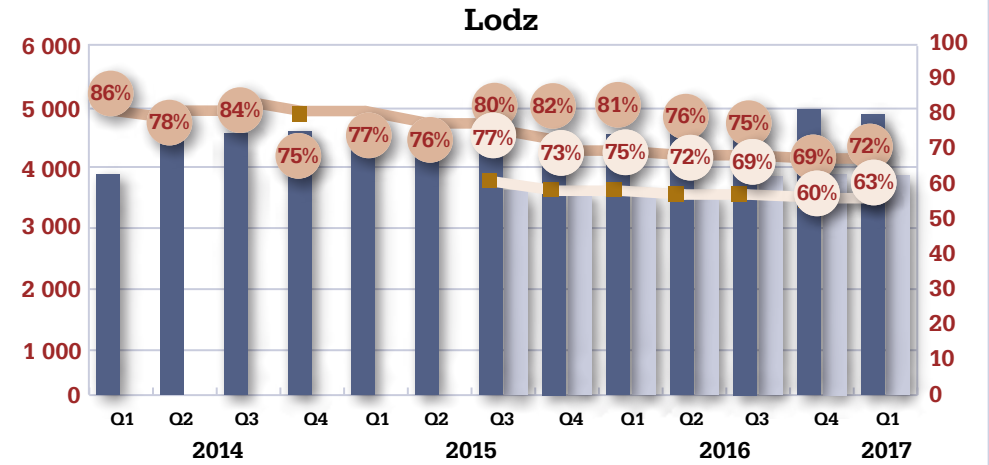
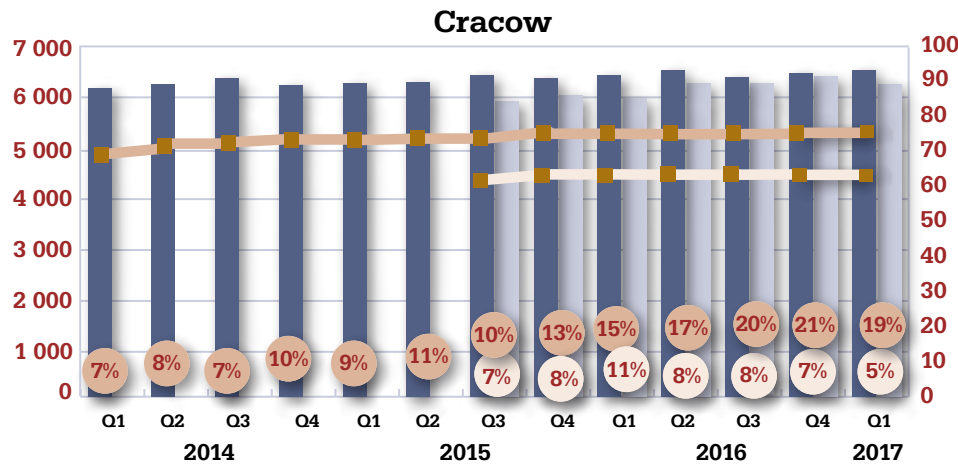
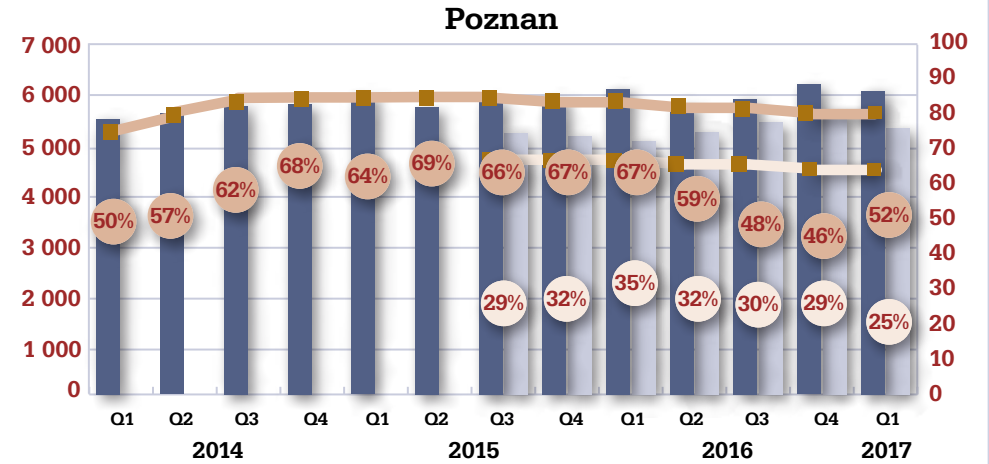
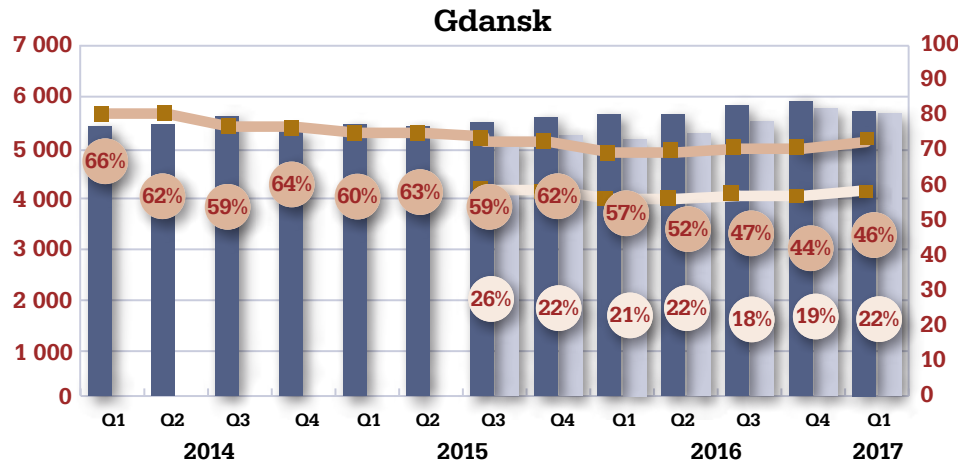
the price limits per 1 sq.m. of dwelling in the 'Flat for Youth' Programme change twice a year – for the Pomeranian voivodship in January and July, for the other provinces – in April and October  
Source: BGK

Extracting the transactions concluded in Q1 2017 with price per square meter and floor area within the limits of 'Flat for Youth' Programme, enabled to identify the availability of the Programme in the biggest Polish cities. The largest share of transactions, which met the conditions of the 'Flat for Youth' Programme, was noted in Lodz – 72% of all transactions concluded in this city on primary market and 63% on secondary market. In worse situation were potential buyers of flats in Poznan and Gdansk,

where respectively 52% and 46% of transactions on primary market and 26% and 22% on secondary market concerned flats below the limits. The worst situation in terms of the Programme's availability was in Warsaw – 16% of all transactions concluded on primary market and only 4% of flats sold on secondary market met the requirements of the Programme.

Chart 16. Comparison of average transaction prices per 1 sq. m. of flats in Q1 2014 – Q1 2017 and price limits in 'Flat for Youth' Programme





■ average transaction prices - primary market  
 ■ average transaction prices - secondary market

— "Flat for Youth" Programme - price limits per 1 sq. m. on primary market  
 — "Flat for Youth" Programme - price limits per 1 sq. m. on secondary market

● transaction corresponding to price limits of the "Flat for Youth" Programme - primary market  
 ● transaction corresponding to price limits of the "Flat for Youth" Programme - secondary market

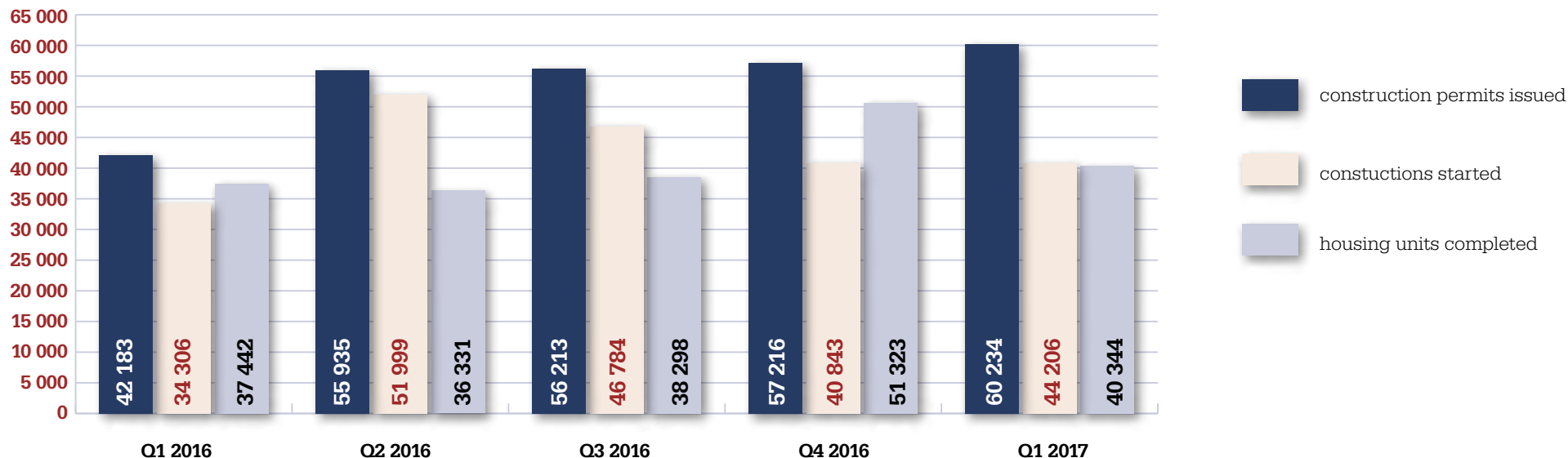
Source: BGK, AMRON

## Situation on housing market

According to the newest data published by the Central Statistical Office (GUS), permits for construction of **60 234** dwellings were issued in Q1 2017, which meant an increase by **5.27%** in relation to the previous quarter. The number of constructions started in the period from January to March increased by **8.23%** and amounted to **44 206**, while the number of dwellings completed in analysed quarter decreased by **21.39%** on a quarterly basis and accounted for **40 344** housing units.

On an annual basis, increases were noted in all categories. In comparison to Q1 2016, the number of construction permits issued increased by **42.79%**, the number of constructions started – by **28.86%**, and the number of flats completed – by **7.75%**.

Chart 17. Number of construction permits issued, constructions started and housing units completed in Q1 2016 – Q1 2017



Source: Central Statistical Office

Recent years have been very successful for the developers' market, both in terms of investments and sales. In 2016 it seemed that the record-breaking results on the housing market we had behind, but yet the developers surprised again. The results of Q1 2017 exceeded expectations. The number of construction permits issued exceeded

**31%** of the total number recorded in 2016, the number of constructions started by developers – more than **27%**, and the number of dwellings completed was almost **24%** of the previous year result. The fact that Q1 results are usually the weakest suggests that we may see another record-breaking results of housing market this year.

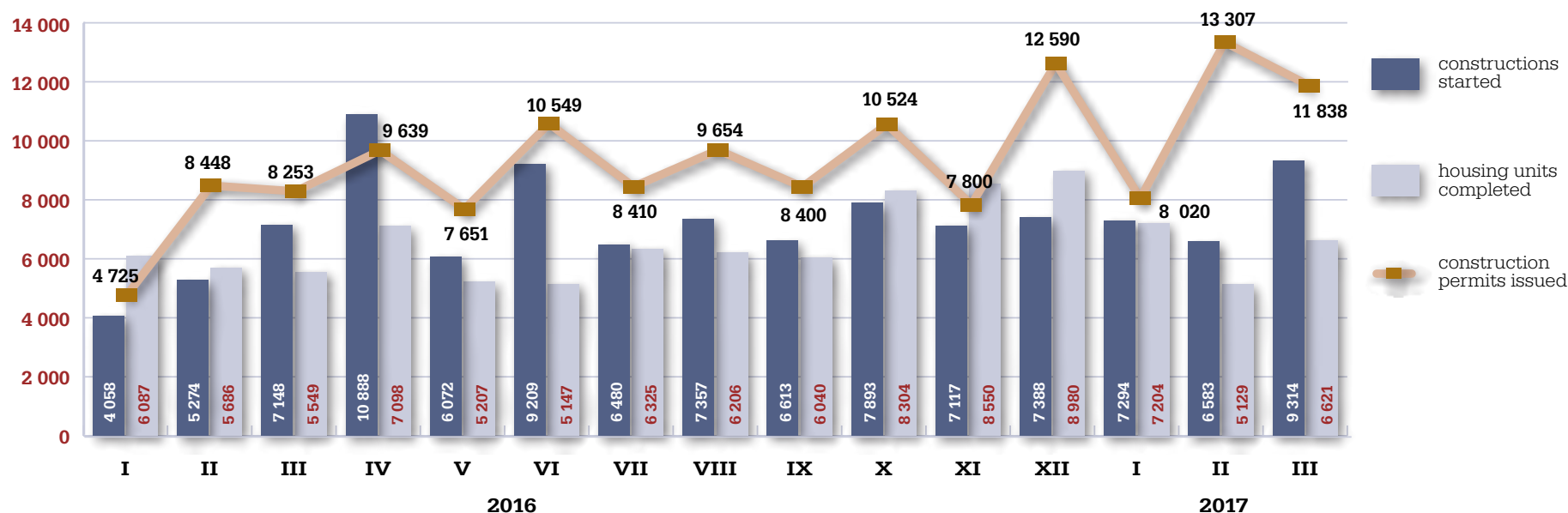
According to preliminary GUS data, in Q1 2017, developers' sector started construction of **23 191** dwellings and obtained permits for the construction of further **33 165** flats, i.e. respectively by **3.54%** and **7.28%** more in comparison to Q4 last year. The number of dwellings completed by developers during this period amounted to **18 954**, which meant a decrease by **26.63%** in relation to the previous quarter, which is quite natural.

In comparison to the same period last year, developers' sector recorded increases in all analysed categories. In Q1 2017, developers obtained

by **54.79%** more construction permits, started construction of **40.72%** more dwellings and completed by **9.42%** more dwellings than in Q1 2016.

In Q1 2017, more than **55%** of all construction permits were issued by developers (more by **1.03 p.p.** than in Q4 2016). Development investments started in the analysed quarter accounted for **52.46%** (less by **3.54 p.p.**) of all new projects and the dwellings completed by developers' sector amounted to **46.98%** of all new units ready to move in (less by **3.36 p.p.** in comparison to the previous quarter).

Chart 18. Number of construction permits issued, constructions started and housing units completed by developers in January 2016 – March 2017, monthly



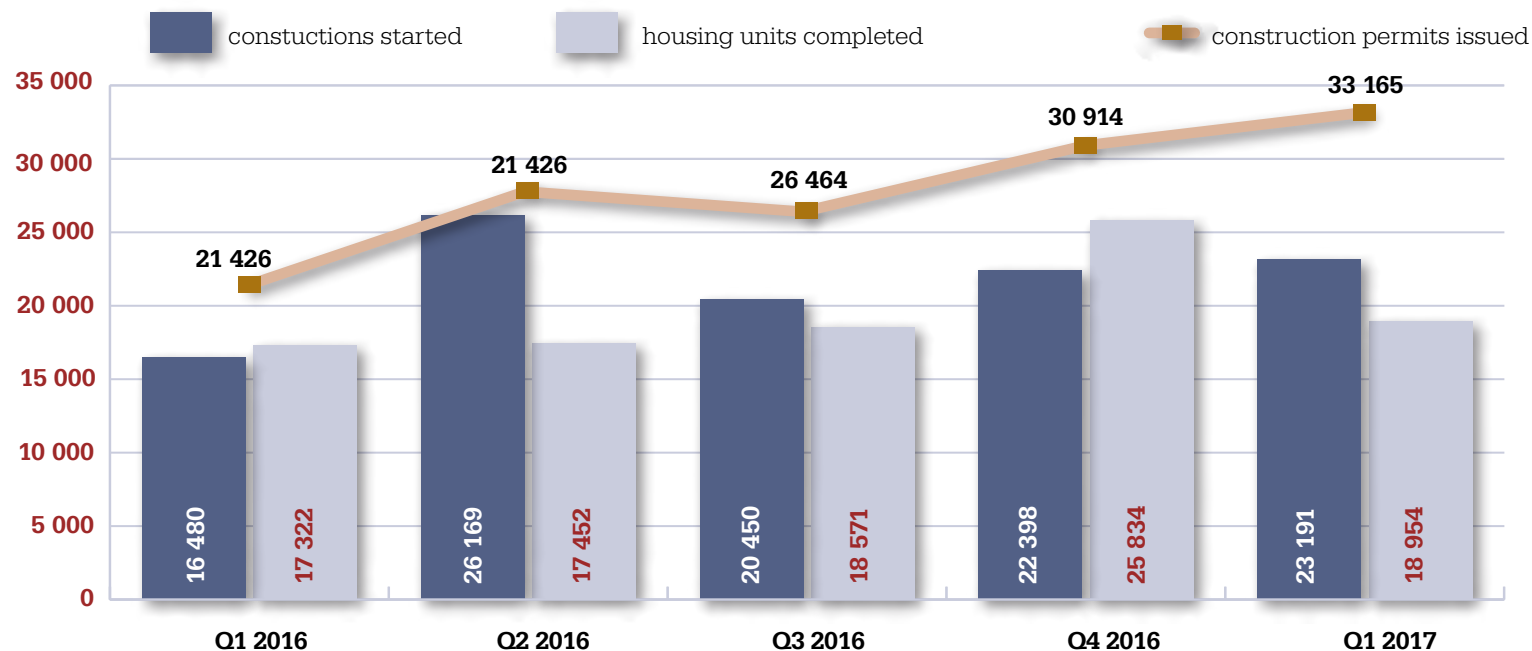
Source: Central Statistical Office

Table 10. Number of construction permits issued, constructions started and housing units completed by developers in Q1 2016 – Q1 2017

	2016				2017
	Q1	Q2	Q3	Q4	Q1
<b>Construction permits issued</b>	21 426	27 839	26 464	30 914	33 165
<b>Constructions started</b>	16 480	26 169	20 450	22 398	23 191
<b>Housing units completed</b>	17 322	17 452	18 571	25 834	18 954

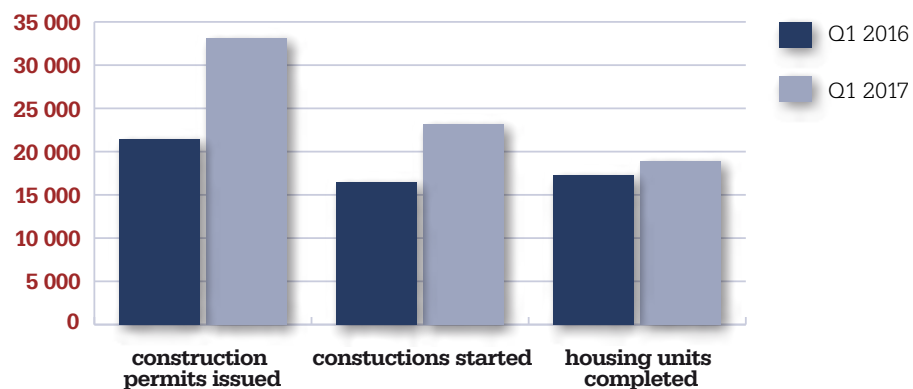
Source: Central Statistical Office

Chart 19. Number of construction permits issued, constructions started and housing units completed by developers in Q1 2016 – Q1 2017, quarterly



Source: Central Statistical Office

**Chart 20. Comparison of numbers of construction permits issued, constructions started and housing units completed by developers in Q1 2016 and Q1 2017**



Source: Central Statistical Office

## Average transaction prices of housing units

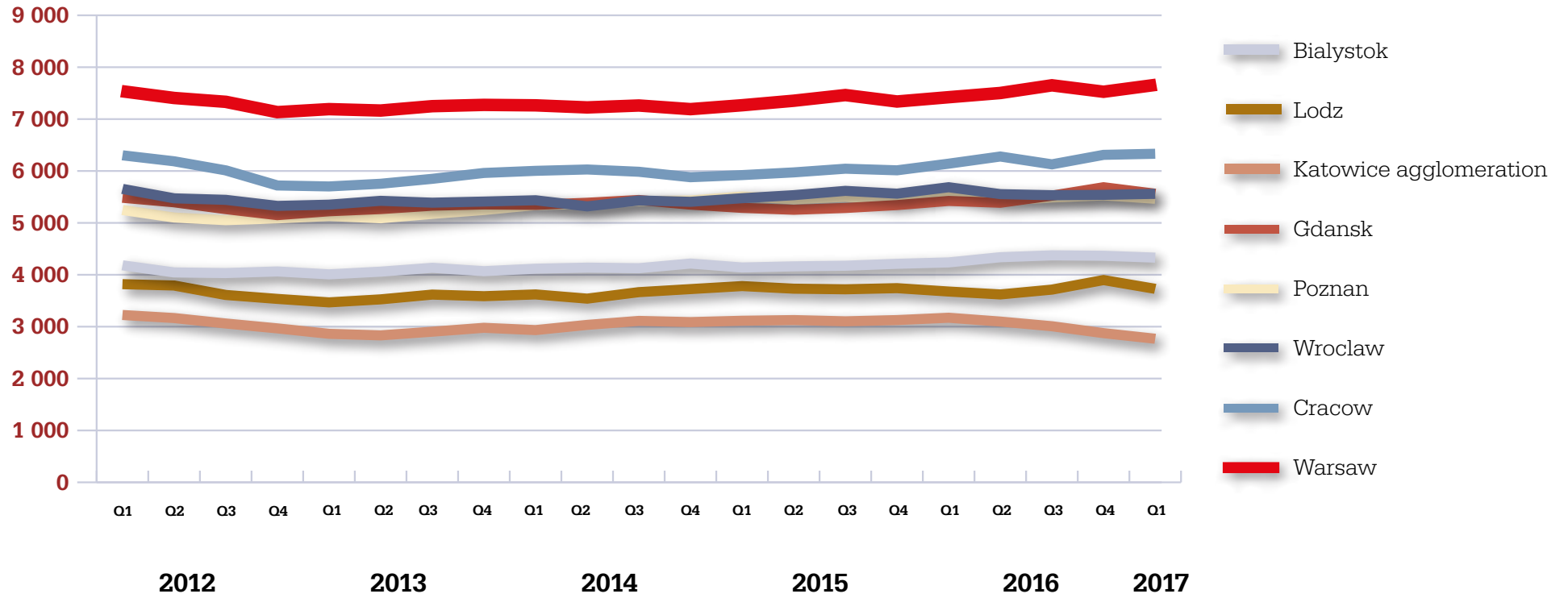
Thanks to developers' rapid response, despite a great increase in demand on housing properties over the past three years, average prices of dwellings did not increase as significantly as it was observed during the previous demand boom. Developers adjusted the offer to the growing demand from new purchasers groups, such as the 'Flat for Youth' Programme beneficiaries, investment clients and luxury home buyers,

launching new, tailor-made investments. However, it did not prevent housing prices from changing. In the largest Polish cities, the upward trend has been observed since 2013, but its dynamics was relatively minor and adapting prices to 'Flat for Youth' Programme requirements even caused incidental price drops. In the period from Q1 2013 to Q1 2017, a decrease in the average price was recorded only in Katowice agglomeration – by **3.31%**. At the same time, average price per square meter of dwellings in Cracow increased by **11.04%**. Lower increases were recorded in other cities, i.e. from **3.91%** in Wroclaw to **8.02%** in Bialystok. In smaller cities, only minimal price changes were observed.

Comparing to the previous quarter, a slight increase in average unit price was noted in three out of eight analysed agglomerations, i.e. in Warsaw, Cracow and Wroclaw, respectively by **PLN 132/sq.m.**, **PLN 21/sq.m.** and **PLN 20/sq.m.** In other analysed cities, there were recorded slight decreases, the largest of which was observed in Lodz – by **PLN 169/sq.m.** and in Gdansk – by **PLN 126/sq.m.**

In comparison to the corresponding period of 2016, a decrease in average transaction price was recorded in Katowice agglomeration (by **PLN 405/sq.m.**), in Wroclaw (by **PLN 126/sq.m.**) and in Poznan (by **PLN 99/sq.m.**). In other cities, housing prices increased – the greatest rise (by **PLN 238/sq.m.**) was recorded in Warsaw.

Chart 21. Average transaction prices per square meter of a housing unit in selected cities in Q1 2012 – Q1 2017



Source: AMRON

Table 11. Average transaction price per square meter of a housing unit in selected cities in Q1 2012 – Q1 2017

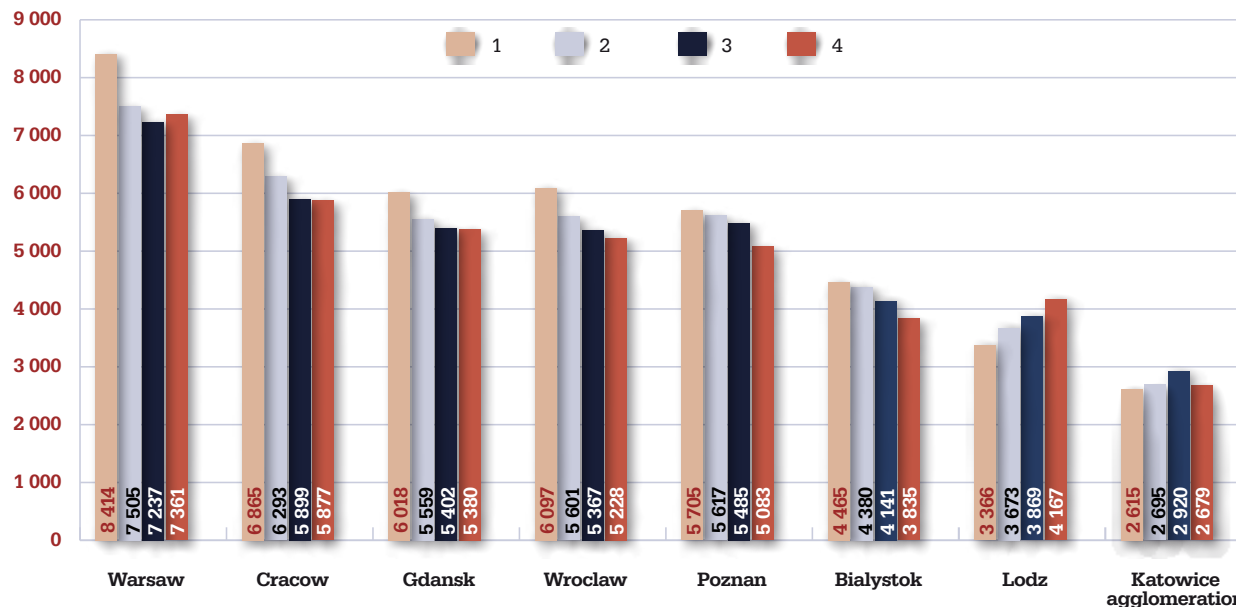
		Warsaw	Bialystok	Katowice agglomeration	Wroclaw	Gdansk	Cracow	Poznan	Lodz
<b>2012</b>	<b>Q1</b>	7 536	4 182	3 225	5 655	5 484	6 302	5 248	3 819
	<b>Q2</b>	7 407	4 045	3 166	5 473	5 397	6 187	5 103	3 793
	<b>Q3</b>	7 333	4 033	3 061	5 444	5 265	6 012	5 052	3 611
	<b>Q4</b>	7 134	4 064	2 967	5 327	5 149	5 721	5 086	3 535
<b>2013</b>	<b>Q1</b>	7 192	4 008	2 862	5 351	5 224	5 702	5 132	3 468
	<b>Q2</b>	7 165	4 060	2 832	5 425	5 266	5 754	5 089	3 526
	<b>Q3</b>	7 249	4 134	2 903	5 389	5 331	5 849	5 173	3 618
	<b>Q4</b>	7 274	4 069	2 978	5 411	5 355	5 962	5 248	3 587
<b>2014</b>	<b>Q1</b>	7 265	4 117	2 934	5 436	5 347	6 003	5 343	3 621
	<b>Q2</b>	7 225	4 137	3 034	5 318	5 388	6 029	5 364	3 540
	<b>Q3</b>	7 262	4 126	3 111	5 432	5 441	5 985	5 420	3 665
	<b>Q4</b>	7 192	4 216	3 088	5 406	5 352	5 880	5 432	3 724
<b>2015</b>	<b>Q1</b>	7 267	4 140	3 114	5 475	5 289	5 921	5 509	3 782
	<b>Q2</b>	7 354	4 162	3 127	5 534	5 253	5 973	5 454	3 732
	<b>Q3</b>	7 463	4 174	3 103	5 617	5 287	6 044	5 502	3 720
	<b>Q4</b>	7 339	4 211	3 127	5 563	5 343	6 013	5 426	3 742
<b>2016</b>	<b>Q1</b>	7 422	4 238	3 172	5 687	5 423	6 141	5 564	3 677
	<b>Q2</b>	7 503	4 338	3 098	5 554	5 388	6 279	5 429	3 621
	<b>Q3</b>	7 651	4 374	3 008	5 533	5 525	6 128	5 489	3 714
	<b>Q4</b>	7 527	4 366	2 875	5 540	5 687	6 311	5 530	3 898
<b>2017</b>	<b>Q1</b>	7 659	4 330	2 767	5 560	5 562	6 332	5 465	3 729

Source: AMRON

Analysis of the average transaction price of a square meter of floor area indicated a strong correlation with number of rooms in dwelling. In most of analysed cities, the greater number of rooms, the lower average unit price. Warsaw was the exception, as a segment of four-room dwellings of high standard represented relatively high share of transactions.

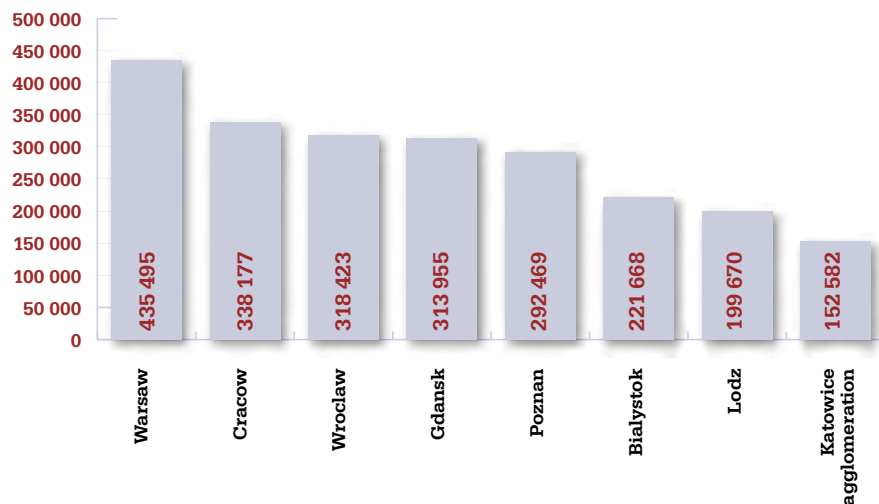
In Lodz and Katowice agglomeration, the tendency was reversed, i.e. the relatively low unit prices implied higher demand for larger dwellings and therefore resulted in higher prices per square meter in that segment than average.

Chart 22. Average transaction price per square meter of a housing unit in selected cities by the number of rooms in Q1 2017



Source: AMRON

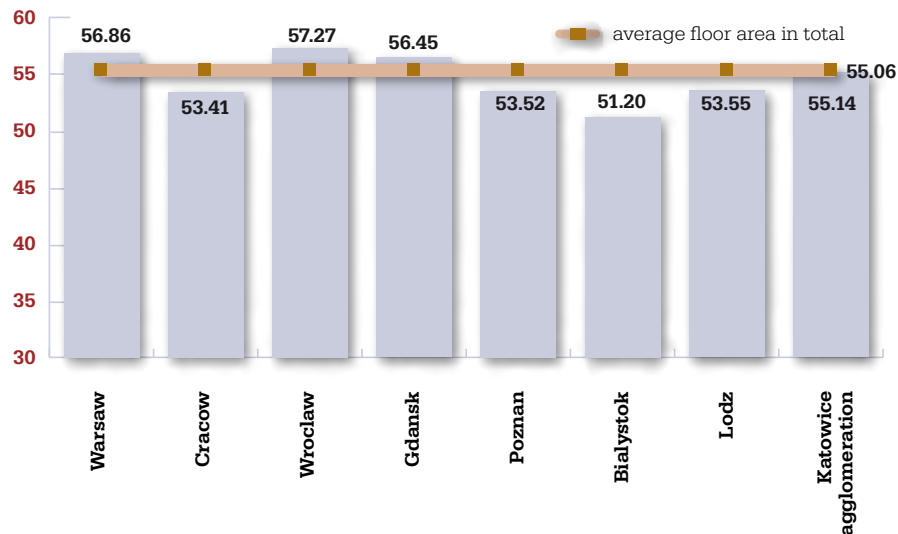
Chart 23. Total average transaction prices of housing units in selected cities in Q1 2017



Source: AMRON

The average floor area of dwelling purchased in eight major Polish cities in Q1 2017 remained at level of the previous quarter and amounted to **55.06 sq.m.** Dwellings with useable area larger than average were bought in Warsaw (**56.86 sq.m.**), Gdansk (**57.27 sq.m.**), Wroclaw (**56.45 sq.m.**) and Katowice agglomeration (**55.14 sq.m.**). The smallest dwellings were traded in Bialystok, where the average floor area accounted for **51.20 sq.m.**

Chart 24. Average floor area of housing units in selected cities in Q1 2017 (sq.m.)



\* in 8 surveyed locations  
Source: AMRON

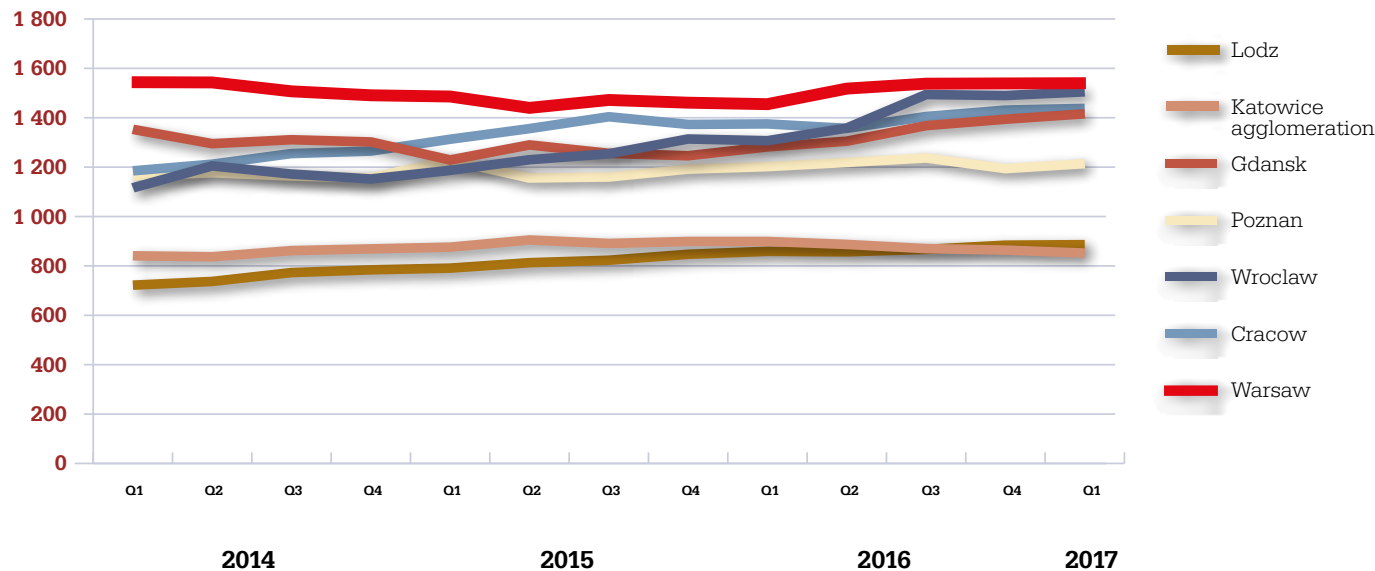
### Average rent rates of housing units

For the last three years, dynamics of rent rates at the private housing rent market in main Polish cities has been variable, however, increases were more frequent than drops. The factors that influenced increases in rates

were, among others, growing demand for rent resulting from population mobility, higher housing loans costs, Recommendation S requirements, as well as demographic and social factors. Higher rents were probably related to increase in share of primary market in the structure of rented flats purchased as an investment, and as a consequence, the higher standard of dwellings offered for rent. Analysis based on lease agreements signed in the period from Q1 2014 to Q1 2017 indicates that for last few years, Warsaw has been the most expensive city in terms of rent rates, comparing to other agglomerations. In Q1 2017, the average monthly rent rate for a dwellings recorded in the capital amounted to **PLN 1 540** and it was higher by **PLN 688** than the lowest rent rate noted in Katowice. The Katowice market was one of the most balanced in terms of changes in rent rates in the analysed sample.

The price distance between the Warsaw market and other markets has been recently clearly decreasing. The most dynamic price increase over the last 3 years took place in Wroclaw – in Q1 2014, an average monthly rent accounted for **PLN 1 116**, while three years later it amounted to **PLN 1 550**, which meant an increase by **34.85%**. In Q1 2017, the difference in average rents between Warsaw and Wroclaw amounted to **PLN 35**, between Warsaw and Cracow – **PLN 102**, and between Warsaw and Gdansk – **PLN 124**.

Chart 25. Average rent rates of a housing unit in selected cities in Q1 2014 – Q1 2017



Source: AMRON

Table 12. Average rent rates of a housing unit in selected cities in Q1 2014 – Q1 2017 (PLN)

		Warsaw	Katowice	Wroclaw	Gdansk	Cracow	Poznan	Lodz
<b>2014</b>	<b>Q1</b>	1544	841	1116	1353	1185	1165	722
	<b>Q2</b>	1543	837	1205	1295	1212	1177	737
	<b>Q3</b>	1507	862	1172	1311	1255	1164	773
	<b>Q4</b>	1491	869	1152	1302	1265	1157	784
<b>2015</b>	<b>Q1</b>	1486	876	1187	1229	1313	1228	791
	<b>Q2</b>	1440	905	1230	1290	1356	1156	813
	<b>Q3</b>	1472	891	1254	1256	1404	1160	823
	<b>Q4</b>	1461	899	1314	1246	1373	1192	847
<b>2016</b>	<b>Q1</b>	1455	899	1307	1282	1375	1202	859
	<b>Q2</b>	1518	887	1358	1305	1357	1219	857
	<b>Q3</b>	1538	870	1494	1368	1405	1237	867
	<b>Q4</b>	1539	864	1490	1394	1431	1194	884
<b>2017</b>	<b>Q1</b>	1540	852	1505	1416	1438	1214	886

Source: AMRON

Based on current lease agreements, the highest average rent rates were recorded in Warsaw (**PLN 1 532**), Gdansk (**PLN 1 357**), Wroclaw (**PLN 1 357**) and Cracow (**PLN 1 355**). The lowest average rates were noted in Lodz (**PLN 868**). The greatest rents range was noted in Warsaw

(**PLN 9 310**) and the smallest – in Katowice (**PLN 751**). Katowice was the city, where the maximum rental rate was the lowest in the whole classification (**PLN 1 300**), while the lowest monthly rent was recorded in Lodz (**PLN 320**).

Chart 26. The range of rent rates of a housing unit in selected cities on the basis of the current rental agreements

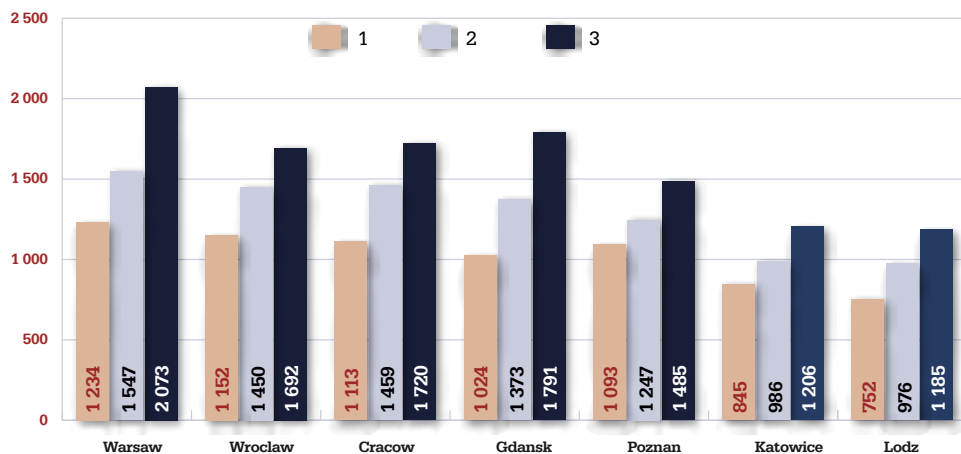


Source: AMRON

In all analysed housing size categories, the highest average rent rates (based on current rent agreements) were observed in Warsaw, while the lowest – in Lodz. As far as one-room studios are concerned, the rent gap between Warsaw and Lodz was equal to **PLN 482**, in case of two-room flats it was **PLN 572** and three-room flats – **PLN 888**. The second

most expensive city in terms of average rents for one-room studios was Wroclaw, where it amounted to **PLN 1 152** per month, the second highest rents for two-room flats were recorded in Cracow, where an average rent amounted to **PLN 1 459**, while in case of three-room dwellings, it was Gdansk with an average rent rate at the level of **PLN 1 791**.

**Chart 27. Average rent rates of a housing unit in selected cities by number of rooms on the basis of the current rent agreements**

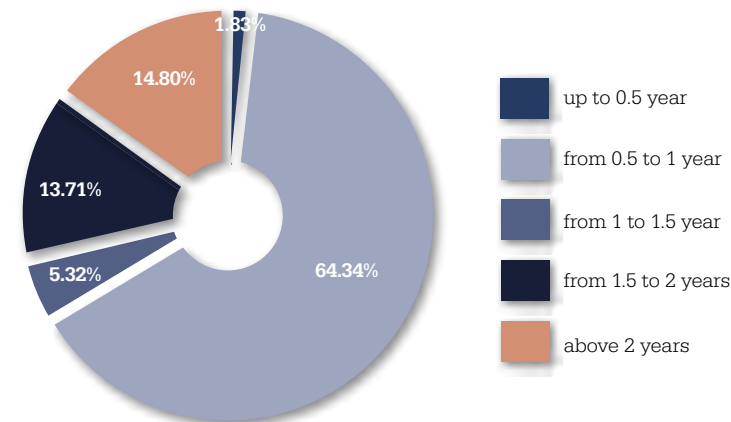


Source: AMRON

Most of rent agreements were concluded for 12 months, but the actual time of tenancy was not regular. In case of **64.34%** of all current lease agreements, tenants lived in rental dwellings from 0.5 to 1 year, which was mainly due to the fact that students – dominant group of tenants – concluded lease agreements for a period of 9-10 months. The second

largest share of agreements (**14.80%**) concerned dwellings occupied for period above 2 years. Rental time shorter than 0.5 year was observed in case of **1.83%** of agreements.

**Chart 28. Structure of the current rent agreements in terms of the rent period**



Source: AMRON

The analysis was based on rent rates entered into the AMRON System, among others, by Mzuri Sp. z o.o., leader on the Polish private rent market. The analysis was based on the monthly amounts owed to the landlord before tax, excluding administration fees and maintenance costs, rent management fees, projected and current utility charges, etc.



## Commentary

### – Krzysztof Bystrosz, Member of the Management Board of Mzuri Sp. z o.o.



Data presented in the Report, largely based on the data provided by Mzuri, formed a coherent picture of a stable market dominated by small dwellings.

The geographical differentiation of average rents should not surprise – housing rent in Warsaw was the most expensive (PLN 5 332 per month net, i.e. without administration fees and utility charges). However, this does not mean that the investment in the capital city was the

most profitable, because transaction prices in Warsaw were the highest comparing to other big cities: prices in Cracow were lower by 11% than in Warsaw, in Gdansk and Wroclaw – by 13-14%, and the last was Katowice and Lodz, where dwelling could be rented for PLN 868 per month in average, which was slightly over half (54%) of average rent in Warsaw. Paradoxically, investments in these cities were generally the most profitable because real estate was disproportionately less expensive there.

Owners of larger dwellings for rent may be surprised by average rental rates, but it should be mentioned that 88% of the sample of rented flats, on which the report is based, were one-room studios and two bedroom dwellings. Large flats with four rooms and more accounted for only 1% of the sample. This is largely due to the demographics of the main

tenant groups, who are people starting their career, childless, singles or couples, as well as students, who account for about 1/3 of the tenants. These groups are generally looking for cheaper and therefore smaller dwellings.

The analysis also did not include rented rooms or larger dwellings where rooms were rented separately. Return rates on such flats are often higher than on the whole flats, but the risks related to the seasonality of such rent are also higher.

All owners should be satisfied with the stability of rent rates observed in recent quarters. The large scale of private investments in dwellings and rapidly growing supply of flats for rent have raised fears of rent rates decrease. Luckily, also the group of tenants is growing dynamically (the newest data published by Eurostat indicates that the number of tenants in Poland have doubled during the last 5 years), so the supply and demand in large cities generally were balanced.

In Mzuri's opinion, significant changes in rent levels on private market in analysed cities should not be expected next quarters. However, this will be verified by further analyses of this market.

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.

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

In Q1 2017, the most popular segment among buyers in Warsaw were dwellings with floor area between 45 and 55 sq.m. – their share in the structure of dwellings’ turnover amounted to **24.40%**, which meant a slight decrease (by **1.78 p.p.**) in relation to Q4 2016. A negligible decline in popularity was noted also in share of premises with floor area from 85 to 100 sq.m. – by **0.91 p.p.** The turnover of the smallest dwellings with floor area up to 35 sq.m. increased by **1.15 p.p.** and in case of segment of flats with floor area from 55 to 65 sq.m. grew by **0.86 p.p.**

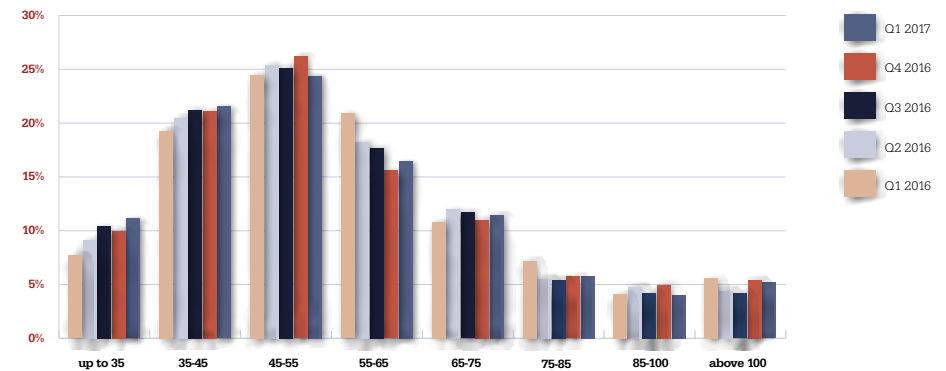
In comparison to the analogous quarter of 2016, increase in total turnover in Warsaw by floor area was recorded in segment of dwellings with floor area up to 35 sq.m. (by **3.46 p.p.**) and from 35 to 45 sq.m. (by **2.28 p.p.**), while the largest decrease was noted in category of 55 – 65 sq.m. (by **4.42 p.p.**).

**Table 13. Share of particular floor area segments in total turnover volume on housing market in Warsaw in Q1 2016 – Q1 2017**

floor area (sq. m.)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
<b>up to 35</b>	7.69%	9.17%	10.41%	9.99%	11.14%
<b>35 – 45</b>	19.27%	20.50%	21.25%	21.13%	21.55%
<b>45 – 55</b>	24.48%	25.39%	25.12%	26.18%	24.40%
<b>55 – 65</b>	20.88%	18.23%	17.68%	15.61%	16.47%
<b>65 – 75</b>	10.81%	11.99%	11.70%	11.02%	11.43%
<b>75 – 85</b>	7.19%	5.52%	5.44%	5.74%	5.79%
<b>85 – 100</b>	4.09%	4.78%	4.24%	4.94%	4.03%
<b>above 100</b>	5.58%	4.41%	4.16%	5.39%	5.19%

Source: AMRON

**Chart 29. Share of particular floor area segments in total turnover volume on housing market in Warsaw in Q1 2016 – Q1 2017**



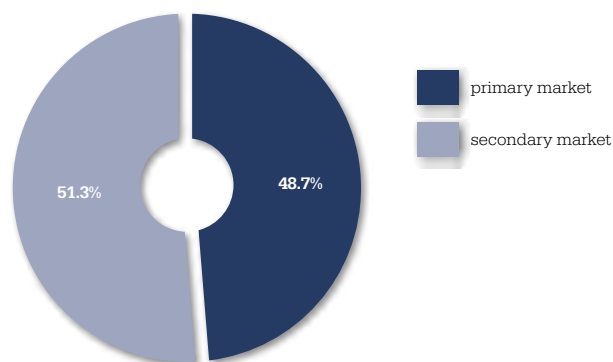
Source: AMRON

## Turnover structure of the Warsaw housing market

In Q1 2017, **51.3%** of buyers of dwellings in Warsaw chose secondary market, while **48.7%** of clients decided to buy a flat on primary market.

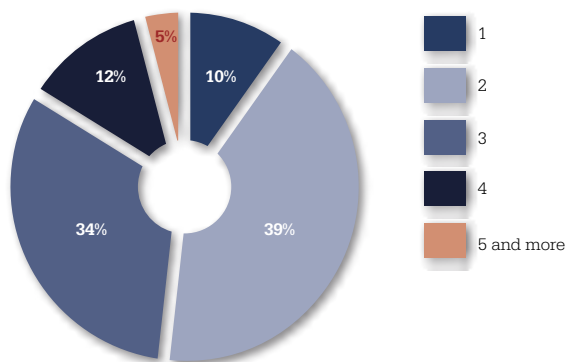
Comparing to the previous quarter, share of studios did not change and accounted for **10%** of total turnover structure of dwellings in Warsaw. The popularity of two-room flats has diminished by **3 p.p.**, while three-room dwellings’ share increased by **2 p.p.** and share of flats of at least 5 rooms increased by **1 p.p.**

Chart 30. Turnover structure on Warsaw housing market – primary and secondary market in Q1 2017



Source: AMRON

Chart 31. Turnover structure on Warsaw housing market in terms of number of rooms in Q1 2017



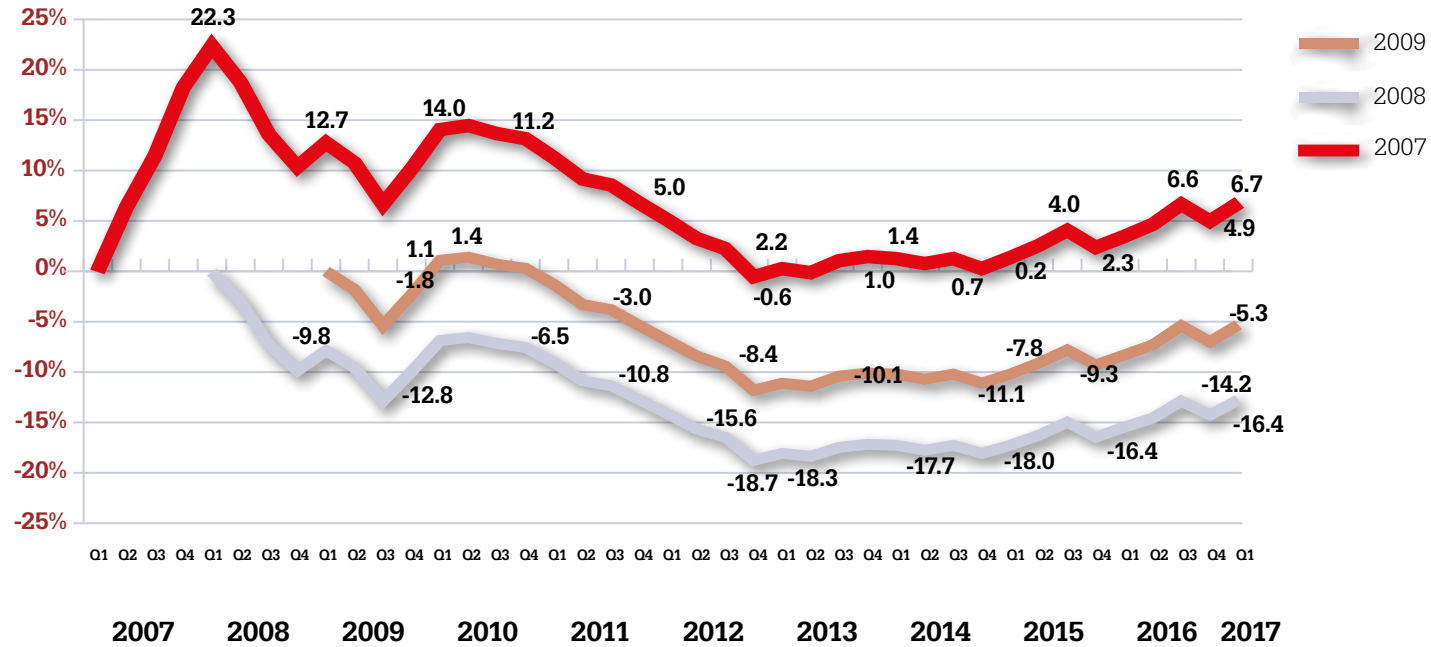
Source: AMRON

## Changes in mortgage collaterals value

Simulation of mortgage collaterals value changes conducted for loans granted in in Q1 2007, Q1 2008 and Q1 2009, based on the analysis of the average transaction prices on Warsaw housing market, showed that borrowers, who have signed mortgage loan agreements in Q1 2008, are in the most difficult situation. At that time, the average transaction price in Warsaw reached the maximum. In terms of current level of transaction prices, decrease in value of properties that constitute collaterals of those loans at the end of Q1 2017 accounted for **12.7%**, which was **1.5 p.p.** more than in Q4 2016. In relation to Q1 2009, the value of properties decreased by **5.3%** (an increase by **1.6 p.p.** in relation to the previous year). The best result of simulation was noted for loans secured with mortgage established in Q1 2007, when prices were still quite low – an increase noted for these properties amounted to **6.7%** (**1.8 p.p.** more than in Q4 2016).

In the period from Q1 2007 to Q1 2017, Warsaw housing market was characterized by the greatest amplitude of average transaction prices changes and therefore it can be concluded that the situation in other cities is better. Moreover, it should also be taken into consideration that the majority of housing loans was granted for the amount not exceeding 80% of collateral value, and also a significant part of the debt has already been repaid. The analysis of changes in property prices confirmed that the maximum decrease of real estate values was recorded between 2008 and 2011 and since 2013, a systematic increase in transaction prices has been observed. Thus, the loss of property value should not be a barrier in potential sale of mortgaged real estate, the only obstacle may be an increase in exchange rates.

Chart 32. Value changes indicators of mortgage collateral of loans granted in Q1 2007 – Q1 2017



Source: AMRON

## Commentary to the Report

– Professor Jacek Łaszek, Warsaw School of Economics



An expansion on the residential real estate market is being currently observed and it's almost a classic style – ten years after the previous peak. Housing market cycles are usually not regular and they do not fit business cycles. Most commonly they result from interest rates fluctuations, although they often depend from many factors (demography, income, behavioural and others). This lack of synchronization is often a problem in monetary policy, when it is necessary to choose between

expansionary policy based on the economic situation and restrictive one, resulting from the real estate boom, which – as it is known – always ends with troubles. You can find out how these choices have taken place in different countries by studying the history of real estate crises. Not surprisingly, the logics of political decisions is to solve problems in order they appear and politicians rarely think of few moves forward, especially in economics, where forecasts are risky. That's why a classic approach 'It's Gonna Be Just Fine' dominates. But it is not always just fine.

In Poland, or more precisely in the largest Polish cities, the situation is fortunately quite simple. An increase in housing demand is caused by two main factors: the so-called 'infrastructure gap' (too low housing consumption in relation to GDP) and low interest rates of loans and deposits. Households that consider housing as consumption, benefit

from low rates and stable housing prices so far. Older households invest savings in rental housing. This is a classic behaviour. Housing investment is simple and quite safe and taking into account the scale of needs for commercial rental housing, rents will not decrease in the near future.

Polish financial sector is very simple and transparent. There are no tensions on housing sector that could destabilize it. So are there any threats? Well, the economy generally does not like rapid changes, as well as it does not go well with both excess and lack. In general, two scenarios of further expansion are possible, beyond the status quo, which would be the safest option. The first is a further increase in demand and a continuation of growth on developers' production. In such scheme, developers will bear the risk, because if demand falls, they will have a large stock of unsold dwellings. The second variant is the supply reduction that will cause increase in prices. If the price increase will not be further financed by housing loans, as it looks like for the moment, it will not translate into common speculation and increase in debt. Then banks and we all will have a problem, when prices finally decrease. In this scenario, developers will stay with large amount of expensive and unsold flats. So it seems that, as far as now, the main risk taker is well capitalized and experienced developers' sector. And what the reality will look like – we will see.

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 Transactions

AMRON System is a standardized, nationwide database on real estate prices and values, equipped with advanced reporting and analytical modules for monitoring changes 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. For twelve years we have created a new quality of information on value of real estate and from that point of view it is fully justified to literally understand the anagram of Polish name of the System: **AMRON – NORMA (the norm)**. For participants of Polish real estate market, **making use of AMRON System became a norm**. We have consistently implemented our goal, which is to create a comprehensive database on Polish 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 prices changes of housing unit, construction plots and rural areas in selected provincial real estate markets – those reports are available on AMRON website. We also offer the individual reports prepared

accordingly to the detailed specifics of the market segment, location and time period. Since the beginning of 2014, we also offer services of real estate valuation realized by a network of appraisers cooperating with AMRON Centre.

AMRON Centre cooperates with commercial and cooperative banks, credit unions, insurance companies, Agricultural Property Agency, real estate appraisers and realtors, as well as with developers, financial advisors and municipalities. Currently, AMRON System is used by more than 500 entities active on real estate market. AMRON database is also available for National Bank of Poland, General Prosecutor's Office and Polish Financial Supervision Authority.

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# sarfin System for Analysis of Real Estate Financing Market

System for Analysis of Real Estate Financing Market (SARFiN) is a system for exchanging information on sales of housing loans and information relating to the monitoring of the risk portfolio of housing loans.

The System is run by the Polish Banks Association since July 2001. The System is used by 19 banks, which, in accordance with the principle of reciprocity, submit to the System own information contribution and in return receive the reports containing aggregated data. Those reports allow to assess the volume and dynamics of the whole market and identify banks' own position on that market. The information generated in the System reflects about 95% of the market for retail lending. Access to the data stored in the SARFiN System has also the National Bank of Poland.

The data processed in the SARFiN System are also used in specialist analytical publications prepared by AMRON Centre, developed at the individual request of banks, investors, developers and other entities interested with reliable information about a particular market segment in the selected location and time period.

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

The Management Board of Polish Banks Association decided that service and administration of SARFiN System have been submitted to the Centre of Banking Law and Information, which supports also other Exchanging Information Systems of the PBA in a similar range. This means that the SARFiN System is a subject of internal policies and procedures to guarantee the high quality of the processed information, application security and project management in a manner consistent with the KNF requirements defined in Recommendation D. The contractor of maintenance and administration of the SARFiN System is the AMRON Centre, operating within the organizational structure of the Centre of Banking Law and Information.

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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, National Bank of Poland.

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