

# AMRON-SARFiN Report

on housing loans  
and real estate transaction prices



# 2 / 2013

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COMPLETE VERSION

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POLISH BANK ASSOCIATION

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## Report in numbers

Q2 2013		change Q2/Q1 2013
<b>PLN 328.674 billion</b>	total housing loans debt	<b>2.38%</b> ↗
<b>1.789 Mio</b>	number of active loan agreements	<b>2.92%</b> ↗
<b>44 079</b>	number of concluded agreements	<b>5.96%</b> ↗
<b>PLN 9.160 billion</b>	value of concluded agreements	<b>14.25%</b> ↗
<b>PLN 200 501</b>	average value of a housing loan	<b>6.07%</b> ↗
<b>145.12</b>	Housing Availability Index (HAI M3)	<b>12.69 points</b> ↘
<b>49.96%</b>	share of new housing loans with LtV above 80%	<b>3.69 percentage points</b> ↘
<b>99.05%</b>	share of new housing loans in PLN, by value	<b>0.22 percentage points</b> ↗
<b>0.01%</b>	share of new housing loans in CHF, by value	<b>no change recorded</b>
<b>0.89%</b>	share of new housing loans in EUR, by value	<b>0.22 percentage points</b> ↘
<b>59.31%</b>	share of new housing loans with lending period of 25-35 years	<b>2.31%</b> ↘
<b>PLN 7 165</b>	average transaction price per square meter of a dwelling in Warsaw	<b>0.38%</b> ↘

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## Introduction – about the Report

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



Dear Sirs,

The following, already sixteenth issue of the AMRON-SARFiN Report, includes the analysis of changes on mortgage market and changes in housing transaction prices in second quarter of 2013. Report is published by Polish Banks Association and developed by AMRON Centre, basing on data gathered in AMRON and SARFiN Systems.

I would also like to remind you that we appreciate all your opinions and suggestions aiming to further improvement of the Report.

It is a great pleasure to share some good news with you for the first time since last five quarters. In fact, previous quarter's mortgage results were the weakest for four years, both in terms of volume (41.6 thousand of new loans) and value (PLN 8.0 billion). Fortunately, last quarter's results turned out to be better than in Q1 2013 and also than in Q4 2012.

I believe that regular readers of the Report remember, when a year ago we stressed the fact that the results recorded in second quarter of 2012 were weaker than those recorded in first quarter, what meant disturbance in seasonal cyclicity on mortgage loans market. It seems that the situation gets back to normality. There were 44 079 new housing loans of a total value of PLN 9.160 billion recorded in second quarter of 2013. The scale of such increase is however not enough significant to infer if it is a first sign of mortgage market recovery. I believe it's not yet, as banks seem to counteract such a recovery as they would not be interested in upswinging the loan portfolios. My last experiences in applying for mortgage loan prove that the decision-making process of the applications' approval, restrictive formal requirements and the inordinate prudence in customer evalu-

ation make potential borrowers finance transactions with cash or, to reduce formalities, apply for decreased loan, not to exceed 50% LtV ratio. That confirms previously received information on increasing number of housing transactions financed with no mortgage loan, particularly in segments of the cheapest and the most expensive dwellings.

Seasonal nature of the housing market was confirmed also on construction investments market, where an increase was recorded both in number of constructions started – by 31% and construction permits issued-by 73% (both comparing quarter to quarter). At the same time, analysed quarter brought decreased (by 16%) number of completed housing units – total number of completed dwellings equalled to 31 367 units. Comparison of results of Q2 2013 and Q2 2012 prove the diminished supply on housing market. Number of new housing units constructions started in Q2 2013 was the lowest since 2006 and that confirms actual slowdown on primary housing market and lowered, but stabile level of activity of all of types of investors. As the effect, we witness continuous downward economic activity trend, in particular in developers' sector, combined however with certain symptoms of economic recovery. And that is another good news in this Report.

Housing market seems to get stabilized as well – changes in transaction prices in Q2 2013 ranged from increase by PLN 43 per square meter in Warsaw and Poznan and decrease by PLN 74 in Wroclaw. Comparing Q2 2013 and Q2 2012, the average transaction prices in all analysed cities (excluding Bialystok) decreased by no more than 10%.

Monetary Policy Council's decisions on subsequent decreases in interest rates, as well as first signs of economic growth, should support further recovery on housing and mortgage market.

Positive signals for housing finance in Poland came from both chambers of Polish parliament. In Senate, there was held a debate initiated by Commission of Budget and Public Finance on system of saving-building banks and in Sejm, two parliamentary draft laws were notified: on reversed mortgage and on state support for long-term saving on housing purposes. Implementation of system of saving-building banks may be the impulse for stabile, long-term and constant upward trend in housing sector, which shall support not only those, who still don't have their own flat, but also the whole economy.

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).

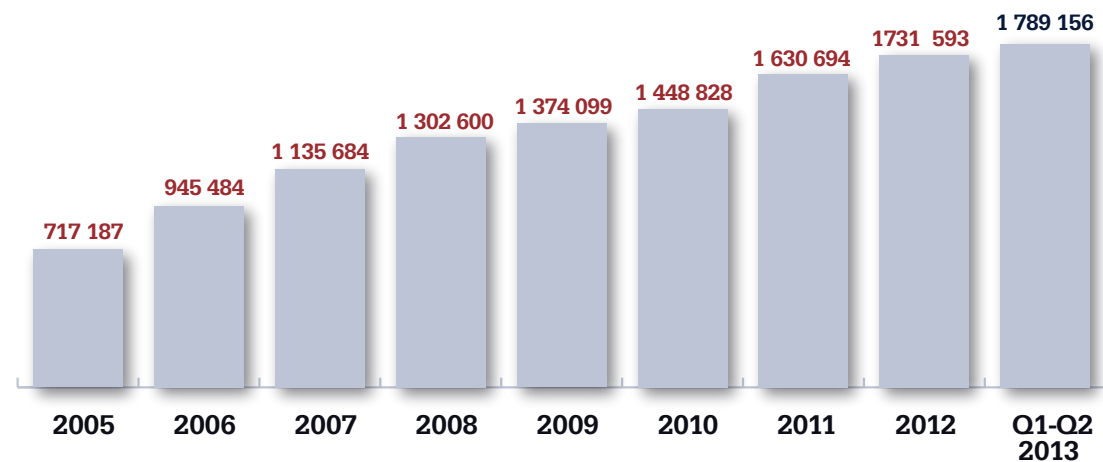
\* AMRON Centre was established by Polish Banks Association to manage and develop the System for Analysis and Monitoring of Real Estate Market Transactions and it operates within the organizational structure of a limited-liability company Centre of Banking Law and Information.

## Situation on housing loans market

### Number of active housing loans

In Q2 2013, the number of active loans increased by **2.92%** comparing to previous quarter, i.e. by **50 833** new loans. Total number of active loans in banks' portfolios as for the end of first half-year of 2013 amounted to **1 789 156**.

Chart 1. Total number of active housing loans in 2005 – Q2 2013



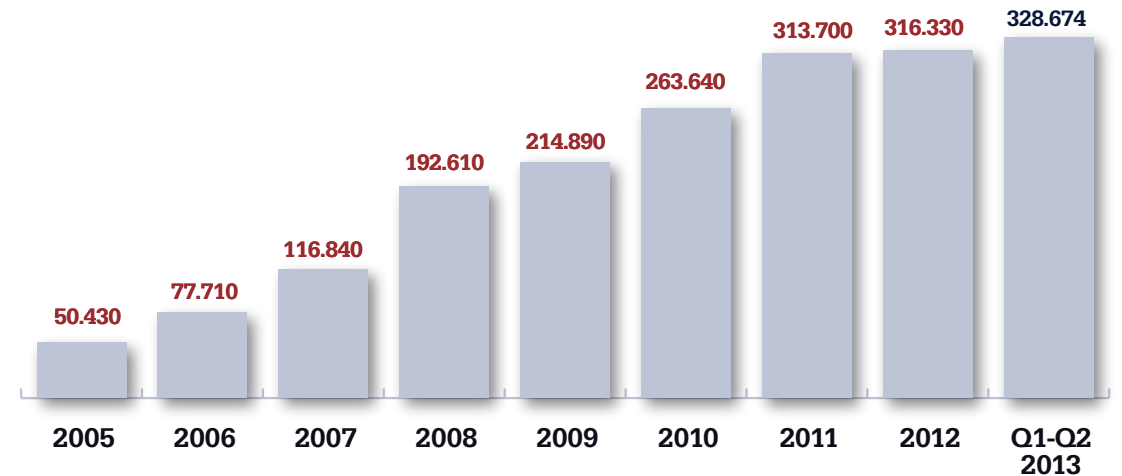
Source: Polish Banks Association

### Total housing loans debt

Total value of all active mortgage loans as for June 30, 2013 equalled to PLN **328.674 billion**. Comparing that value to the value recorded at the end of Q1 2013, the increase of total housing loans debt amounted to **PLN 7.64 billion**, which means an increase by **2.38%**.

The chart below presents changes in value of total housing loans debt of Polish households since 2005.

Chart 2. Total debt from housing loans in 2005 – Q2 2013 (PLN billion)



Source: Polish Banks Association, National Bank of Poland

### Number and value of new housing loans

Second quarter of 2013 brought positive changes in mortgage lending results. Value of newly granted loans amounted to **PLN 9.16 billion**, what represents an increase exceeding **16%**, comparing to the previous quarter's results. At the same time, number of new loan agreements concluded in Q2 2013 increased by almost **6%** and amounted to **44 079**. Such growth resulted from increase in borrowers' creditworthiness induced mostly by Monetary Policy Council's decisions on subsequent decreases in interest rates in May and June. The table 1 presents mortgage lending results of Polish banks from Q2 2009 until Q2 2013, including number and total value of loans granted in particular quarters.

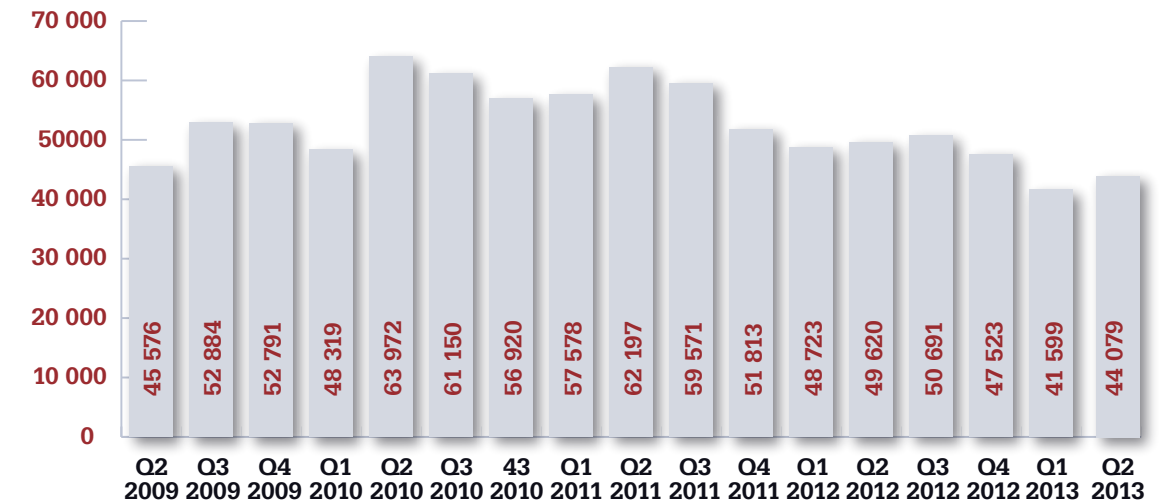
Table 1. Value and number of new housing loans in Q2 2009 – Q2 2013

quarter	value (PLN Mio)	change/ previous quarter	number	change/ previous quarter
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% ↘
Q2 2013	9.160	14.25% ↗	44 079	5.96% ↗

Source: Polish Banks Association

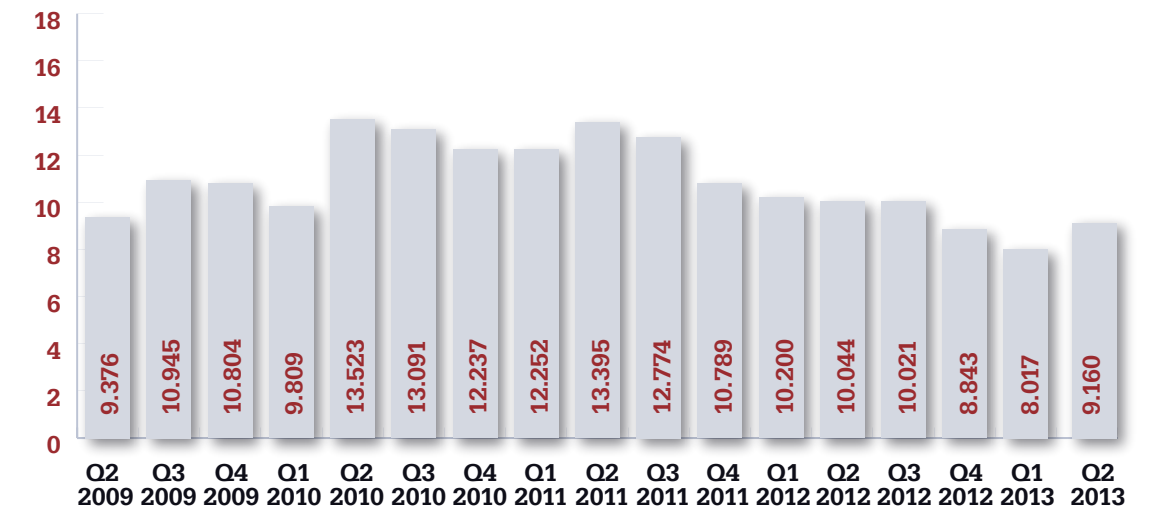
Value of new loans granted in Q2 2013 diminished by **8.80%**, comparing to the results of Q2 2012. Number of new loans was lower than number of loans granted in comparable period of previous year by **5 541** loans, which means decrease by **11.17%**.

Chart 3. Number of new loan agreements in Q2 2009 – Q2 2013, quarterly



Source: Polish Banks Association

Chart 4. Value of new loan agreements in Q2 2009 – Q2 2013 (PLN billion)

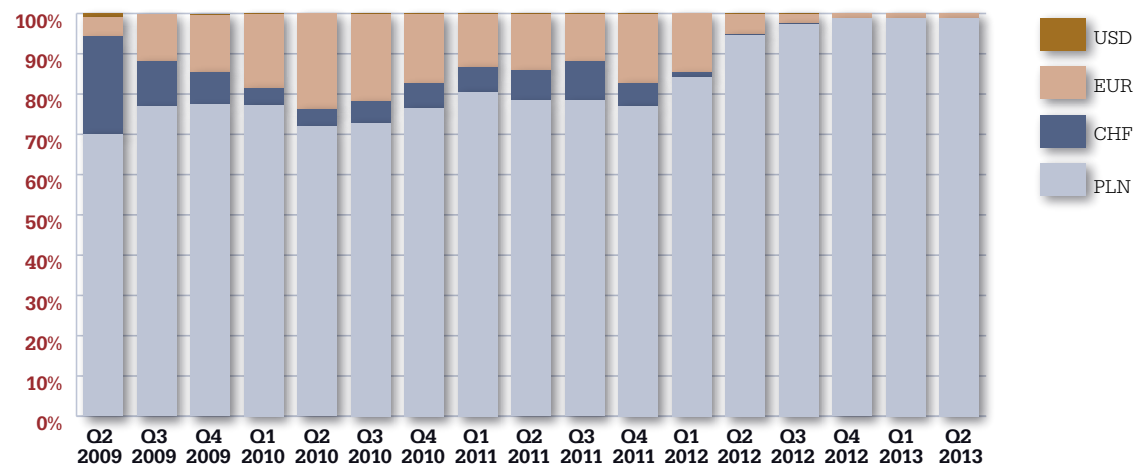


Source: Polish Banks Association

## Loan currency

In Q2 2013, share of PLN loans exceeded **99%** of all newly granted loans. Share of EUR loans was continuously diminishing and as for the end of June it amounted to **0.89%**, comparing to 1.11% in Q1 2013. Share of loans granted in other currencies remained unchanged.

Chart 5. Currency structure of new loans in Q2 2009 – Q2 2013



Source: Polish Banks Association

Table 2. Currency structure of the value of new loans in Q2 2009 – Q2 2013

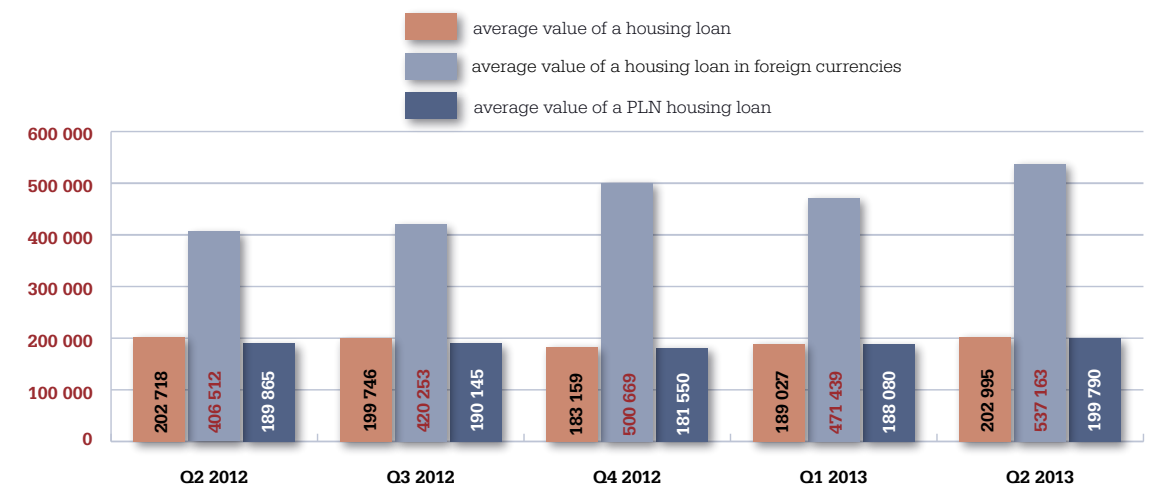
quarter	PLN	CHF	EUR	USD	other
Q2 2009	70.01%	24.26%	4.88%	0.84%	0.01%
Q3 2009	76.94%	11.34%	11.45%	0.10%	0.17%
Q4 2009	77.44%	8.11%	14.02%	0.16%	0.27%
Q1 2010	77.23%	4.28%	18.35%	0.10%	0.05%
Q2 2010	71.90%	4.40%	23.60%	0.10%	0.02%
Q3 2010	72.81%	5.38%	21.76%	0.03%	0.03%
Q4 2010	76.55%	6.06%	17.33%	0.04%	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%
Q2 2013	99.05%	0.01%	0.89%	0.05%	0.00%

Source: Polish Banks Association

## Average value of a housing loan

Second quarter of the year brought an increase in average value of a newly granted loan by **6.23%** (i.e. **PLN 11 710**), comparing to previous quarter. The average PLN mortgage loan granted in Q2 2013 amounted to **PLN 199 790**. Value of the average currency loan increased by **13.94%**, up to **PLN 537 163**. Such numbers prove that creditworthiness of Polish borrowers significantly increased.

Chart 6. Average value of a housing loan, aggregated and by currency in Q2 2012 – Q2 2013



Source: Polish Banks Association

Table 3. Average value of a loan, aggregated and by currency in Q2 2012 – Q2 2013

quarter	average value of a housing loan	average value of a housing loan in foreign currencies	average value of a PLN housing loan
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
Q2 2013	202 995	537 163	199 790

Source: Polish Banks Association

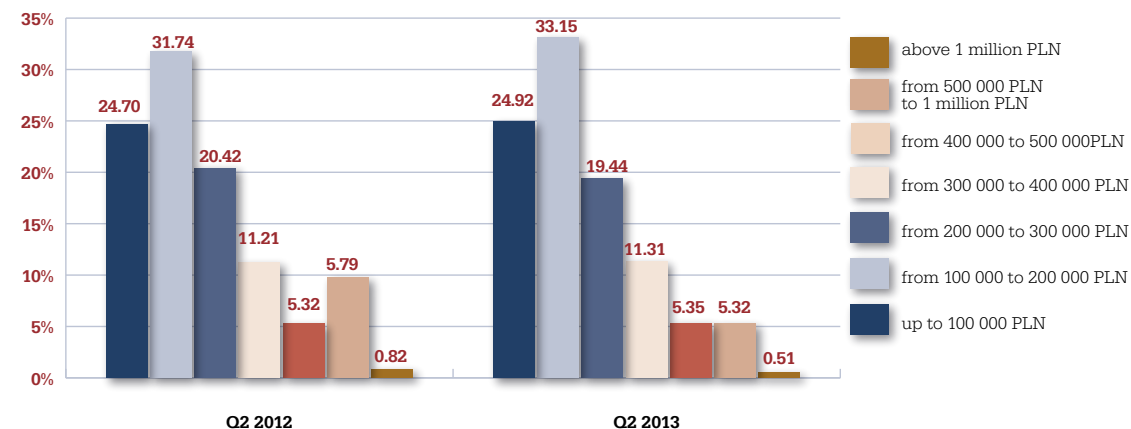
### Structure of new loans, by amount

Second quarter of 2013 brought increased share of loans granted for amount exceeding PLN 300 000. The most significant change referred to loans amounting to PLN 200 000 – 300 000 – share of those loans diminished by almost **3 p.p.** Considerable increase (by **1.46 p.p.**) was also noted in share of loans in the amount from PLN 300 000 to PLN 400 000, while share of loans amounting from PLN 400 000 to

PLN 500 000 increased by **1.41 p.p.** and share of loans in value range from PLN 500 000 to PLN 1 Mio grew by **1.60 p.p.**

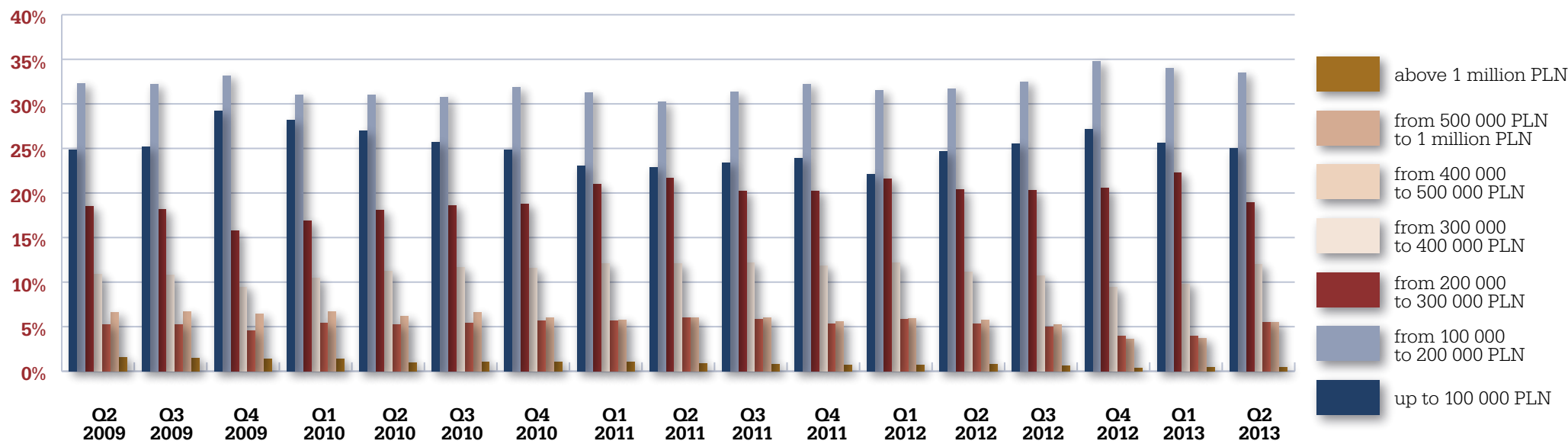
The greatest share (**33.15%**) in value structure of new housing loans granted in Q2 2013 constituted loans in the amount from PLN 100 000 to PLN 200 000.

Chart 7. Structure of the new loans amount – comparison of Q2 2012 and Q2 2013



Source: Polish Banks Association

Chart 8. Structure of the new loans amount in Q2 2009 – Q2 2013



Source: Polish Bank Association

Table 4. Structure of the new loans amount in Q2 2009 – Q2 2013

	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	Q2 2013
<b>up to 100 000 PLN</b>	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%	24.92%
<b>from 100 000 to 200 000 PLN</b>	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%	33.15%
<b>from 200 000 to 300 000 PLN</b>	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%	19.44%
<b>from 300 000 to 400 000 PLN</b>	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%	11.31%
<b>from 400 000 to 500 000 PLN</b>	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%	5.35%
<b>from 500 000 PLN to 1 million PLN</b>	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%	5.32%
<b>above 1 million PLN</b>	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%	0.51%

Source: Polish Banks Association

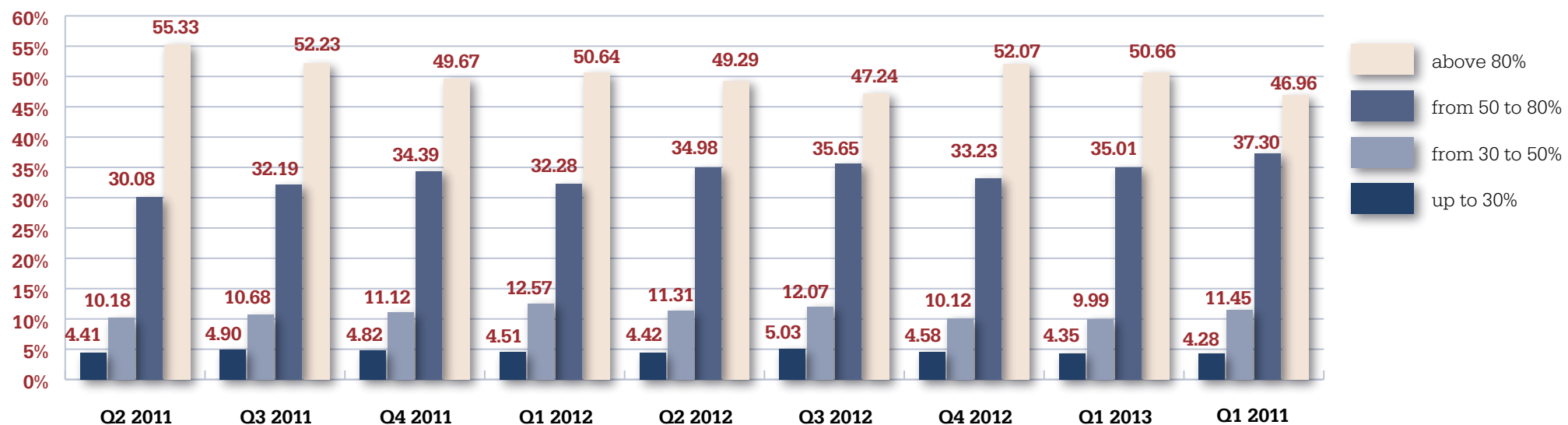
### Structure of the LtV ratio

As expected, restrictions in credit policies of Polish banks resulted in significant limitation in granting loans with LtV ratio above 80% – share of those loans in total new loans structure equalled to **46.96%**, what represents decrease by **3.69 p.p.** comparing to Q1 2013. At the same time, share of loans with LtV ratio at the level from 50% to 80%

increased by **2.29 p.p.**, while share of loans with LtV ratio from 30% up to 50% increased by **1.47 p.p.**

Such tendency will probably continue, as due to the Recommendation S issued by Polish Supervisory Authority, loans financing the whole transaction value will not be granted and borrowers' down payment will be obligatory when applying for a housing loan.

Chart 9. Structure of LtV ratio of newly granted loans in Q2 2011 – Q2 2013, in terms of value



Source: Polish Bank Association

Table 5. Structure of LtV ratio of newly granted loans in Q2 2011 – Q2 2013

	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
<b>up to 30%</b>	4.41%	4.90%	4.82%	4.51%	4.42%	5.03%	4.58%	4.35%	4.28%
<b>from 30 to 50%</b>	10.18%	10.68%	11.12%	12.57%	11.31%	12.07%	10.12%	9.99%	11.45%
<b>from 50 to 80%</b>	30.08%	32.19%	34.39%	32.28%	34.98%	35.65%	33.23%	35.01%	37.30%
<b>above 80%</b>	55.33%	52.23%	49.67%	50.64%	49.29%	47.24%	52.07%	50.66%	46.96%

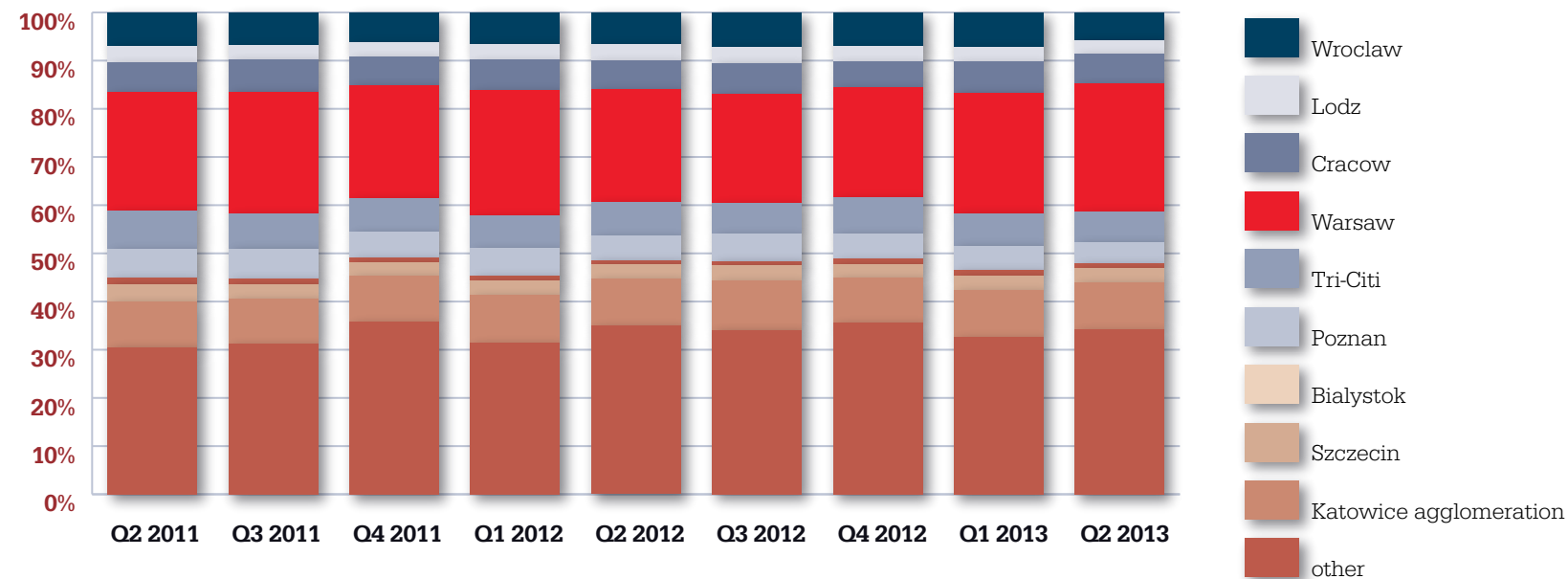
Source: Polish Banks Association

## Housing loans in major Polish cities

In the period from April to June 2013, **65.80%** of all new housing loans were granted in major Polish cities, while in previous quarter it represented **67.34%**. Share of smaller markets in value structure of

newly granted loans amounted to **34.20%**, what means an increase by almost **1.54 p.p.**, comparing to Q1 2013.

Chart 10. Value of newly granted loans in major Polish cities in Q2 2011 – Q2 2013



Source: Polish Bank Association

Table 6. Value of newly granted loans in major Polish cities in Q2 2011 – Q2 2013

	other	Katowice agglomeration	Szczecin	Bialystok	Poznan	Tri-Citi	Warsaw	Cracow	Lodz	Wroclaw
<b>Q2 2011</b>	23.90%	6.70%	4.70%	0.70%	7.00%	7.80%	29.40%	7.10%	4.20%	8.50%
<b>Q3 2011</b>	26.80%	6.40%	3.90%	0.60%	6.40%	7.50%	28.90%	7.10%	4.30%	8.10%
<b>Q4 2011</b>	27.20%	7.10%	4.10%	0.90%	5.80%	6.90%	29.70%	6.60%	4.00%	7.70%
<b>Q1 2012</b>	26.15%	13.56%	4.14%	1.32%	6.31%	6.84%	23.34%	7.30%	4.15%	6.88%
<b>Q2 2012</b>	20.31%	10.19%	3.44%	0.96%	6.77%	8.81%	31.91%	5.93%	3.77%	7.90%
<b>Q3 2012</b>	23.48%	10.00%	3.10%	1.02%	6.06%	8.48%	30.90%	5.74%	3.63%	7.59%
<b>Q4 2012</b>	28.36%	9.49%	3.32%	1.35%	5.78%	7.85%	27.57%	6.28%	3.31%	6.68%
<b>Q1 2013</b>	29.27%	9.42%	3.14%	1.17%	6.06%	7.88%	26.73%	6.18%	3.23%	6.92%
<b>Q2 2013</b>	34.20%	9.69%	3.03%	1.04%	4.21%	6.51%	24.46%	6.34%	2.72%	5.80%

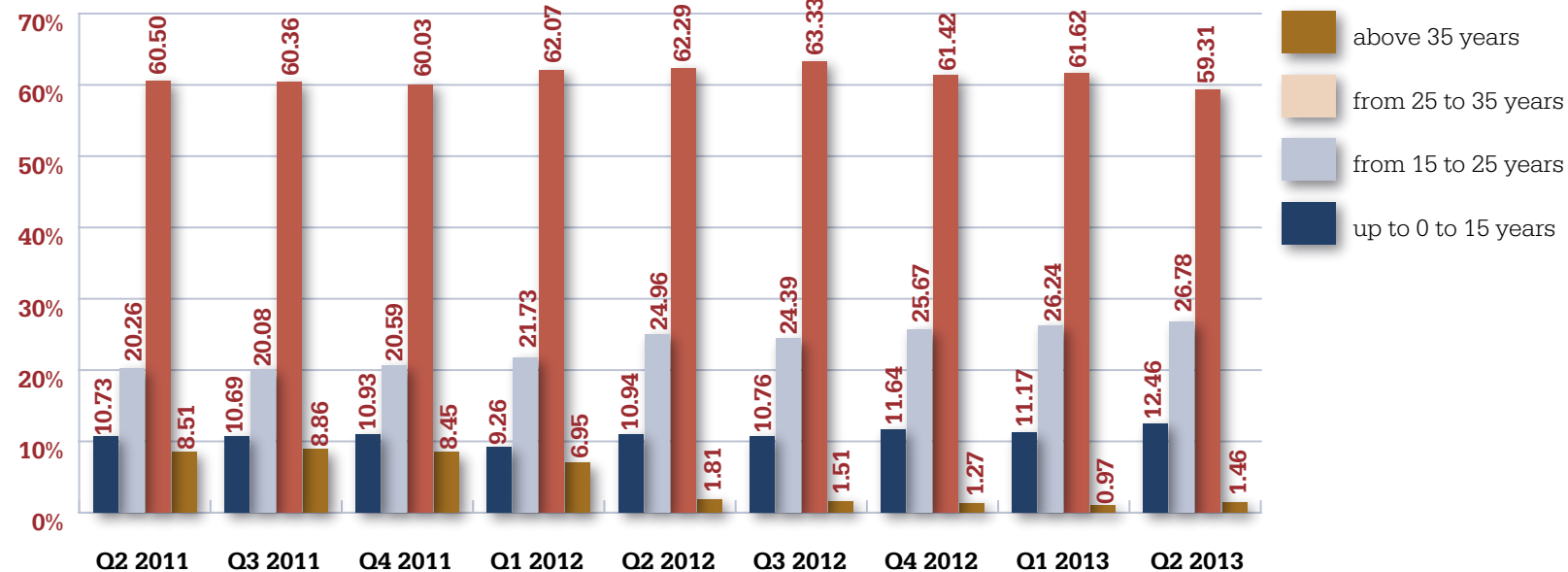
Source: Polish Bank Association

## Lending period

In Q2 2013, changes in structure of new loans in terms of lending period referred to loans granted for the period of maximum 15 years – share of those loans increased by **1.29 p.p.** Despite the fact that

loans with lending period from 25 to 35 years still constituted nearly **60%** of all new housing loans, share of those loans decreased by **2.31 p.p.**, comparing to previous quarter.

Chart 11. Structure of new loans by lending period in Q2 2011 – Q2 2013



Source: Polish Bank Association

Table 7. Structure of new loans by lending period in Q2 2011 – Q2 2013

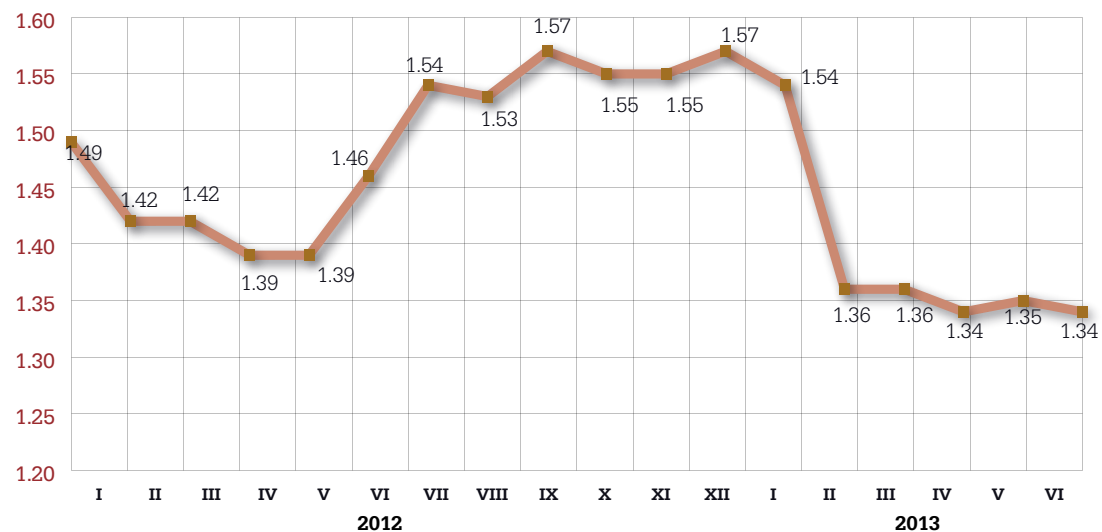
	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
<b>up to 15 years</b>	10.73%	10.69%	10.93%	9.26%	10.94%	10.76%	11.64%	11.17%	12.46%
<b>from 15 to 25 years</b>	20.26%	20.08%	20.59%	21.73%	24.96%	24.39%	25.67%	26.24%	26.78%
<b>from 25 to 35 years</b>	60.50%	60.36%	60.03%	62.07%	62.29%	63.33%	61.42%	61.62%	59.31%
<b>above 35 years</b>	8.51%	8.86%	8.45%	6.95%	1.81%	1.51%	1.27%	0.97%	1.46%

Source: Polish Banks Association

### Average margin levels and mortgage interest rates

The average margin level in Q2 2013 remained stable (monthly changes were imperceptible) and it equalled to **1.34%** (for the exemplary housing loan in the amount of PLN 300 000 granted for 25 years, with LtV ratio at the level of 75%).

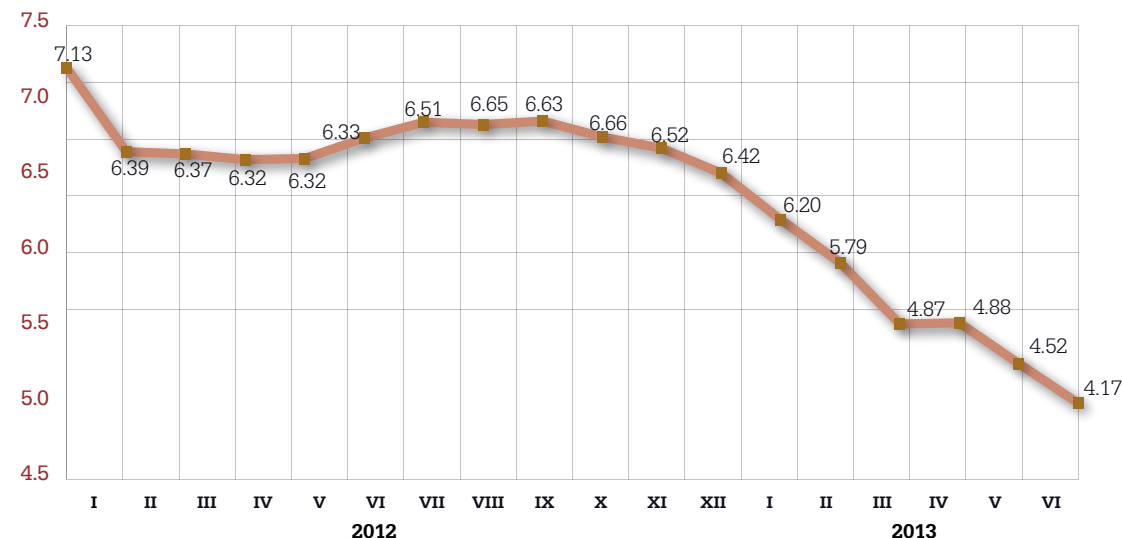
Chart 12. Average margin of a housing loan in January 2012 – June 2013



Source: AMRON, banks' credit offers

In consequence of Monetary Policy Council's decisions on subsequent decreases in interest rates, the downward trend in average housing loan interest rate continued also in second quarter of 2013. As for the end of June, the average interest rate of a housing loan equalled to **4.17%**, which represents a decrease by **2.34 p.p.**, comparing to the level of interest rate in Q2 2012 and it means a decrease by **0.70 p.p.** comparing to Q1 2013.

Chart 13. Average interest rate of a housing loan in January 2012 – June 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 Q2 2013 was influenced by the following factors:

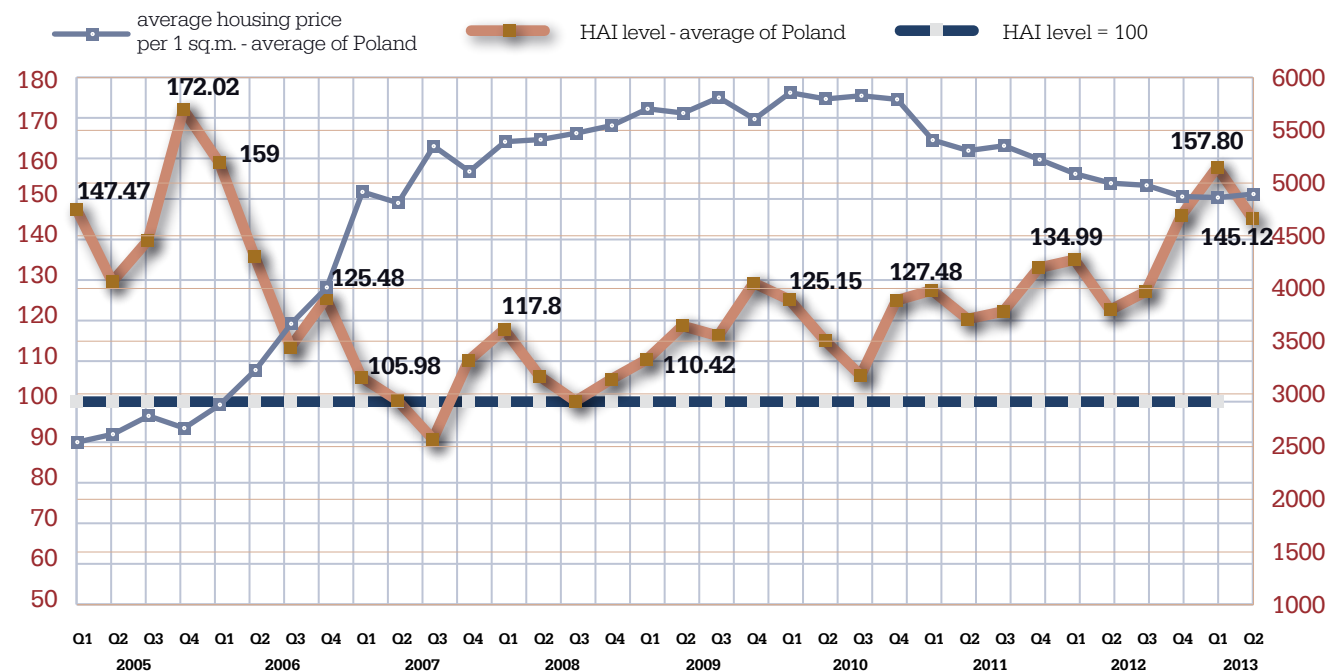
- slight increase in housing prices in cities monitored for HAI M3 calculations (8 the biggest Polish cities, segment of flats of 45-50 sq.m. of floor area) – in Q2 2013 the increase equalled to **0.68%** in relation to Q1 2013
- decrease in the average interest rate of the new housing loans granted in Q2 2013 – the average interest rate of a housing loan

granted in Q2 2013 diminished by 80 basis points, from the level of 6.54% down to **5.74%**.

- decrease (by **3.41%**) in the average earnings level per exemplary family and increase (by **0.5%**) in living costs, which for the Report purposes represent the minimum subsistence level.

Summarizing, all the above-mentioned factors determined the decrease 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 **7.41%**, which resulted in decrease of HAI M3 Index by **12.69 points**.

Chart 14. Housing Availability Index (HAI M3) in Q1 2005 – Q2 2013



Source: Polish Bank Association

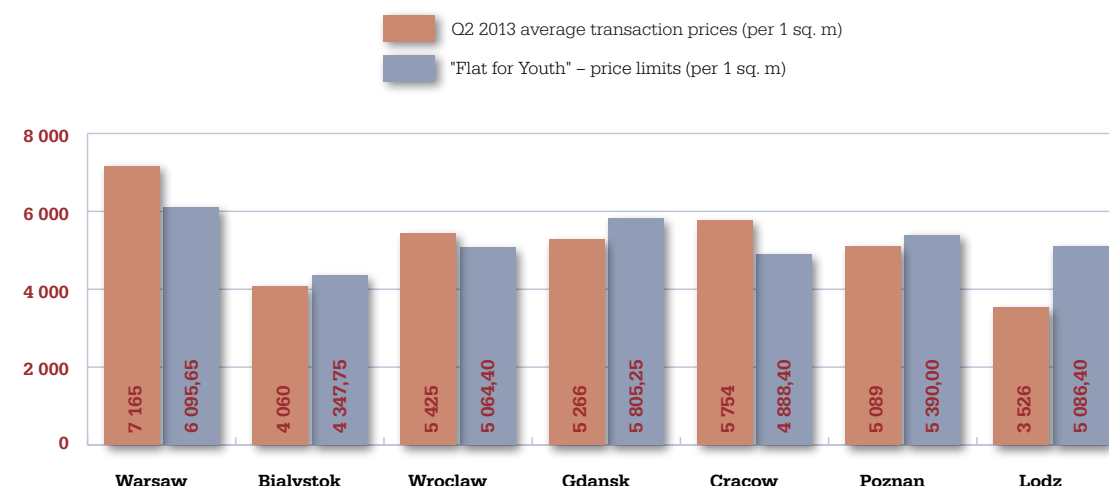
## Price limits in government assumptions to “Flat for Youth” Programme

Draft law on “Flat for Youth” Programme drew up by special parliamentary subcommittee is almost ready, but still some changes are implemented. Assumptions to new Programme, similarly to previous “Family on Its Own” Programme, include maximum price limits of purchased flats. In primary version of the Programme, limit was to be determined by value of the arithmetic average of two last conversion ratios for reconstruction cost of 1 square meter of residential building floor area. In August, however, subcommittee decided to increase the price limit of a flat purchased under the “Flat for Youth” Programme by 10%.

Comparison of average transaction prices noted in Q2 2013 and price limits assumed in the Programme brings the conclusions that in Warsaw it will be the most difficult to benefit from the Programme, as planned price limit will amount to **PLN 6 095.65** per square meter and therefore only new housing investments realized on the outskirts of the capital city will fulfil the Programme’s criteria (considering that prices will not change dramatically in second half-year of 2013).

Different situation may be expected in Bialystok, Gdansk, Poznan and Lodz, as prices noted at those markets will allow to purchase flats constructed at most of new investments.

Chart 15. Comparison of average transaction prices (per 1 sq.m.) of flats in Q2 2013 and assumed “Flat for Youth” Programme price limits



Source: AMRON, Ministry of Transport, Construction and Maritime Economy

Table 8. Comparison of average transaction prices (per 1 sq.m.) of flats in Q2 2013 and assumed “Flat for Youth” Programme price limits

	Q2 2013 average transaction prices (per 1 sq. m)	"Flat for Youth" – estimated price limits (per 1 sq. m)
<b>Warsaw</b>	PLN 7 165	PLN 5 541.50
<b>Bialystok</b>	PLN 4 060	PLN 3 952.50
<b>Wroclaw</b>	PLN 5 425	PLN 4 604.00
<b>Gdansk</b>	PLN 5 266	PLN 5 277.50
<b>Cracow</b>	PLN 5 754	PLN 4 444.00
<b>Poznan</b>	PLN 5 089	PLN 4 900.00
<b>Lodz</b>	PLN 3 526	PLN 4 624.00

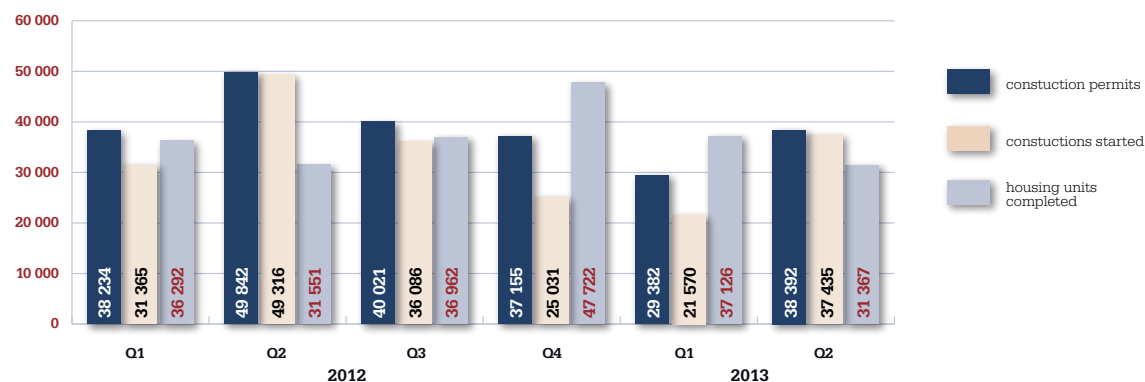
Source: AMRON, Ministry of Transport, Construction and Maritime Economy

## Situation on the housing market

In second quarter of 2013, number of started constructions increased up to **37 435**, comparing to **21 570** constructions started in previous quarter. At the same time, number of issued construction permits increased as well – total number of issued permits amounted to **38 392** and it increased by **31%** comparing to Q1 2013. From the other hand, number of housing units completed in Q2 2013 diminished by **16%** and it amounted to **31 367** units.

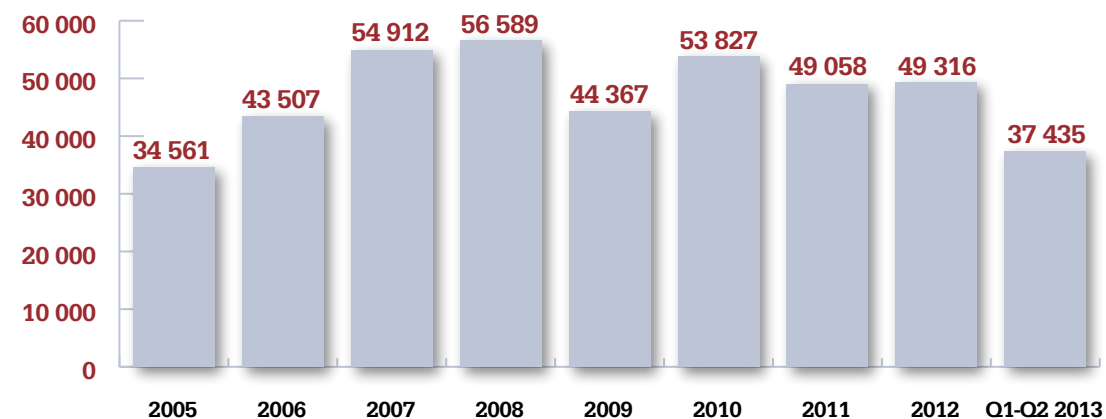
According to Central Statistical Office, number of constructions started in Q2 2013 was the smallest since 2006 and that result represents actual slowdown on investments market. Number of construction permits decreased **23%** comparing to corresponding period of previous year and number of constructions started diminished by **24%**, while decrease in number of completed housing units was insignificant and it equalled to **1%**. Such a scale of decrease confirmed the forecasts of real estate market analysts concerning pro-cyclical and destructive influence of the Act on protecting rights of housing unit or single-family house purchasers (so-called “developers’ act”). Concern about the joint influence of “developers’ act” and “Flat for Youth” Programme on housing transaction prices seems to be justified, especially in economic recovery circumstances.

**Chart 16. Number of building permits issued, constructions started and housing units completed in Q1 2012 – Q2 2013**



Source: Central Statistical Office

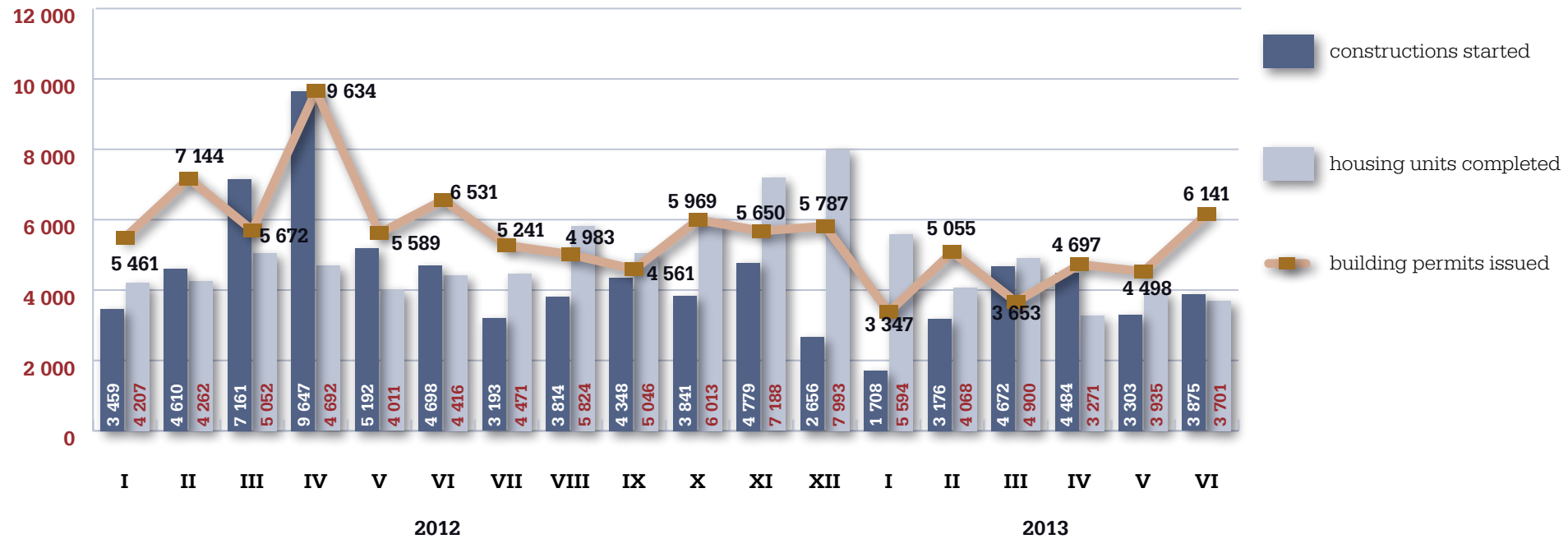
**Chart 17. Number of constructions started in Q2 of 2005 – 2013**



Source: Central Statistical Office

Number of constructions started in analysed period was lower by **40.31%** comparing to Q2 2012. Decrease in numbers of construction permits issued and housing units completed equalled respectively to **29.50%** and **16.86%**. Information from developers sector prove that the number of new housing units entering the market is limited and sale remains stable, what may affirm that buyer’s decisions were not held by dint of “Flat for Youth” Programme.

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



Source: Central Statistical Office

Table 9. Number of construction permits issued, constructions started and housing units completed by developers in Q1 2012 – Q2 2013

	2012				2013	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Constructions permits issued</b>	18 277	21 754	14 785	17 406	12 037	15 336
<b>Construction started</b>	15 230	19 537	11 355	11 276	9 556	11 662
<b>Housing units completed</b>	13 521	13 119	15 341	21 194	14 562	10 907

Source: Central Statistical Office

Chart 19. Number of construction permits issued, constructions started and housing units completed by developers in Q1 2012 – Q2 2013, quarterly



Source: Central Statistical Office

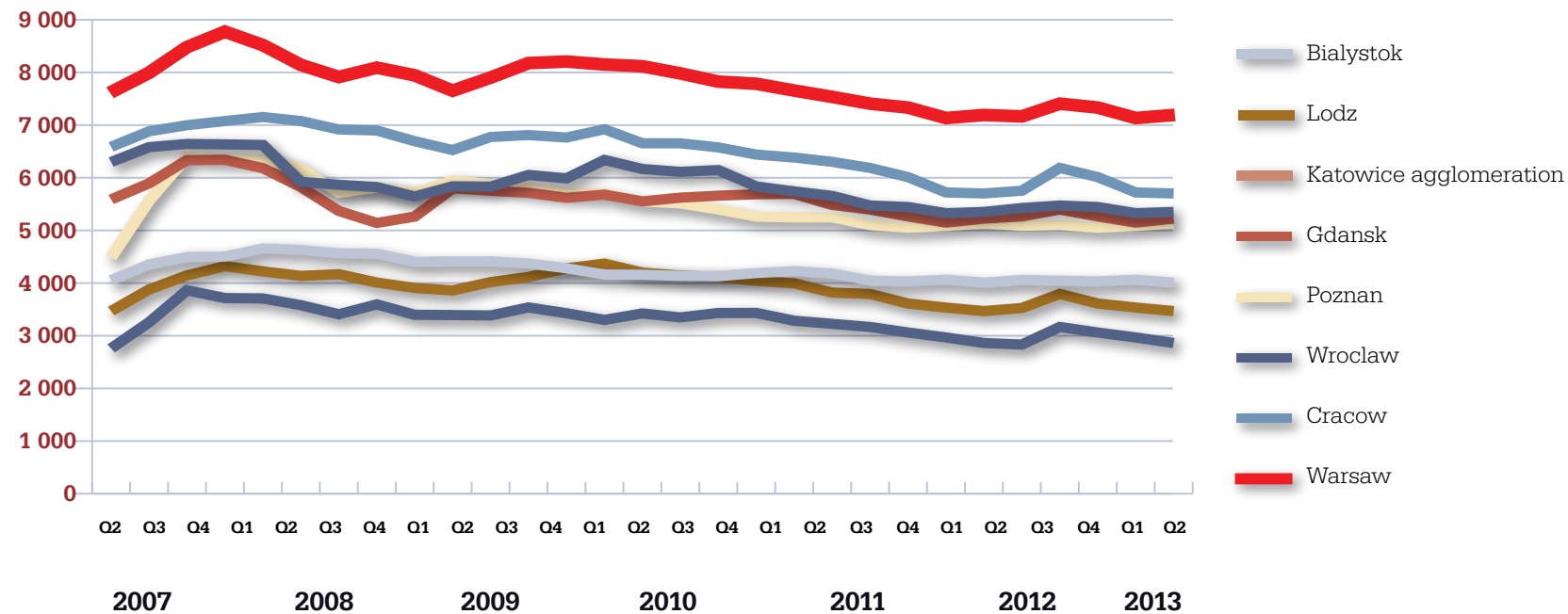
### Average transaction prices of housing units

In Q2 2013, slight changes in average transaction prices on the biggest Polish markets were recorded. In five cities, the average price per 1 square meter marginally increased, while decrease was noted in three agglomerations (Warsaw, Poznan and Katowice). Relating to the previous quarter, the greatest decrease of the average price was noted in Poznan and amounted to only **PLN 43 per. sq.m.**,

while the greatest increase was recorded in Wroclaw and it amounted to **PLN 74**.

Comparing prices noted in Q2 2013 and Q2 2012, the average transaction price declined in all surveyed cities, excluding Bialystok. The greatest decrease was observed in Katowice agglomeration (**10.55%**), Lodz (**7.04%**) and Cracow (**7.00%**).

Chart 20. Average transaction prices per square meter of a housing unit in selected cities in Q2 2007 – Q2 2013



Source: AMRON

Table 10. Average transaction price per square meter of a housing unit in selected cities in Q2 2007 – Q2 2013

	2007				2008				2009				2010				2011			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
<b>Warsaw</b>	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	
<b>Bialystok</b>	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	
<b>Katowice agglom.</b>	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	
<b>Wroclaw</b>	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	
<b>Gdansk</b>	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	
<b>Cracow</b>	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	
<b>Poznan</b>	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	
<b>Lodz</b>	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	

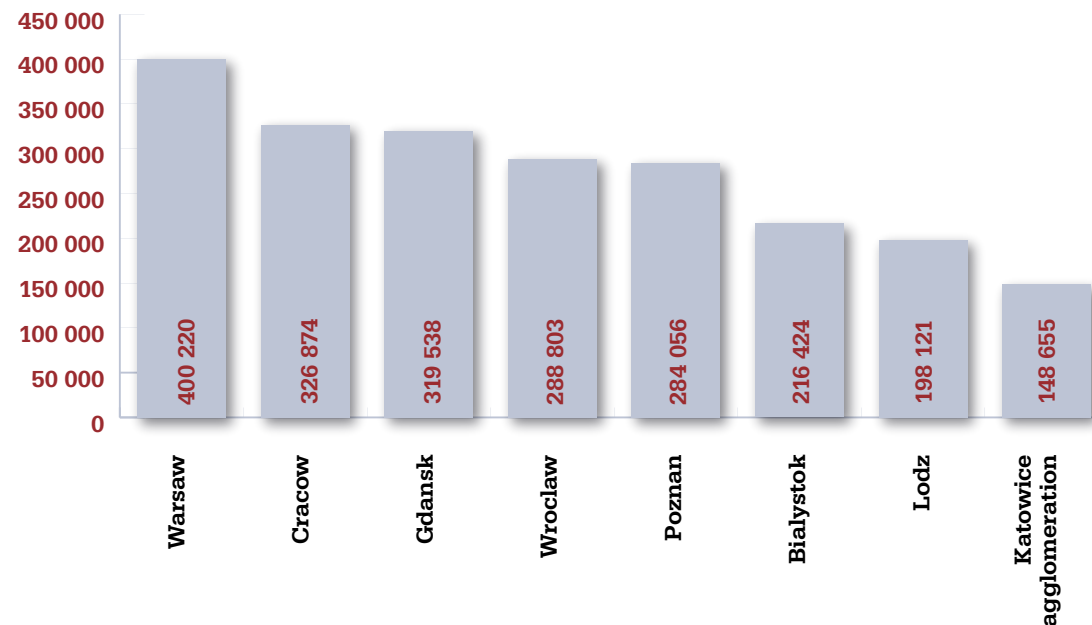
  

	2012				2013	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Warsaw</b>	7 536	7 407	7 333	7 134	7 192	7 165
<b>Bialystok</b>	4 182	4 045	4 033	4 064	4 008	4 060
<b>Katowice agglom.</b>	3 225	3 166	3 061	2 967	2 862	2 832
<b>Wroclaw</b>	5 655	5 473	5 444	5 327	5 351	5 425
<b>Gdansk</b>	5 484	5 397	5 265	5 149	5 224	5 266
<b>Cracow</b>	6 302	6 187	6 012	5 721	5 702	5 754
<b>Poznan</b>	5 248	5 103	5 052	5 086	5 132	5 089
<b>Lodz</b>	3 819	3 793	3 611	3 535	3 468	3 526

Source: AMRON

## Total average transaction prices of housing units in selected cities in Q2 2013

Chart 21. Total average transaction prices of housing units in selected cities in Q2 2013



Source: AMRON

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

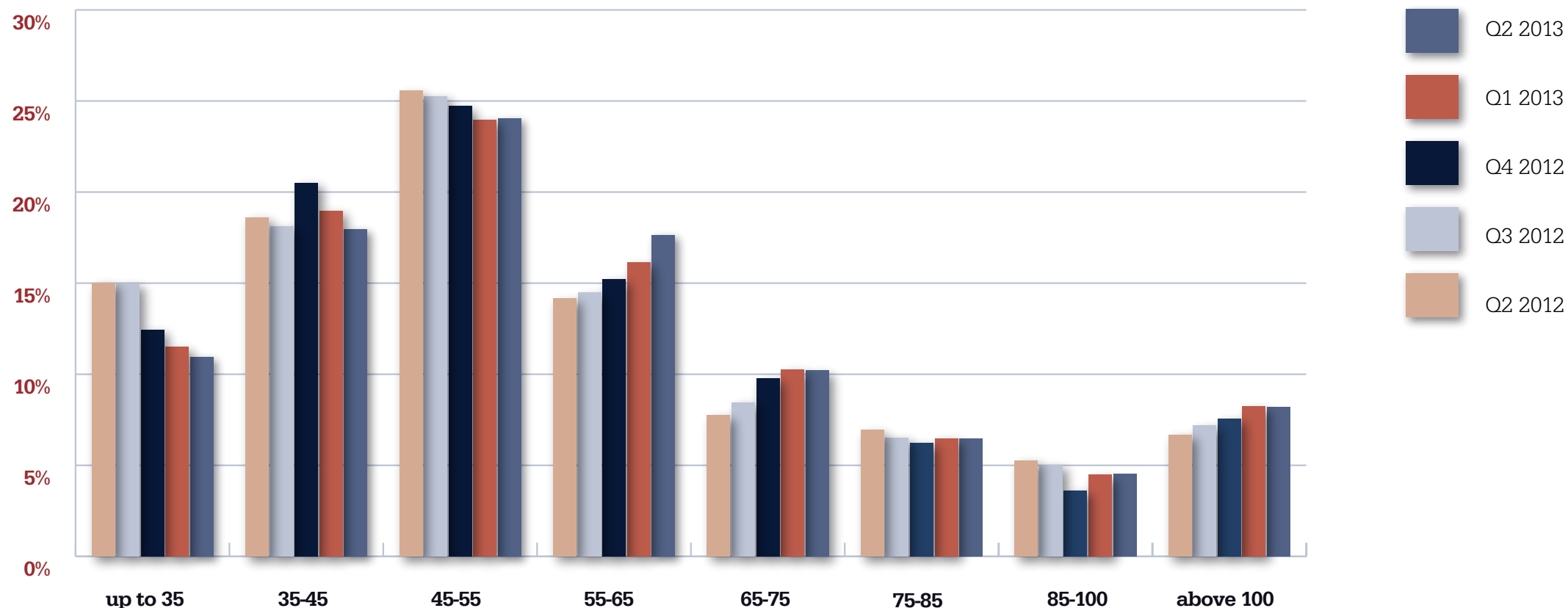
In Warsaw, flats of a floor area up to 55 sq.m. constituted the most popular segment (nearly **55%**) in total turnover structure in terms of floor area. Share of dwellings with floor area from 35 to 45 sq.m. diminished by **1 p.p.** The most significant change was recorded in segment of flats with floor area from 55 to 65 sq.m. – number of transactions in that segment increased by **1.51 p.p.**

Table 11. Dynamics of changes in share of particular floor area segments in total turnover volume on housing markets in Q2 2012 – Q2 2013

floor area (sq. m.)	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
<b>up to 35</b>	15.02%	14.98%	12.44%	11.49%	10.95%
<b>35-45</b>	18.62%	18.13%	20.49%	18.97%	17.96%
<b>45-55</b>	25.56%	25.25%	24.71%	23.98%	24.04%
<b>55-65</b>	14.15%	14.48%	15.21%	16.13%	17.65%
<b>65-75</b>	7.74%	8.46%	9.77%	10.27%	10.20%
<b>75-85</b>	6.94%	6.50%	6.22%	6.46%	6.45%
<b>85-100</b>	5.27%	5.02%	3.61%	4.48%	4.54%
<b>above 100</b>	6.68%	7.18%	7.55%	8.23%	8.22%

Source: AMRON

Chart 22. Share of particular floor area segments in total turnover volume on housing markets in Warsaw in Q2 2012 – Q2 2013

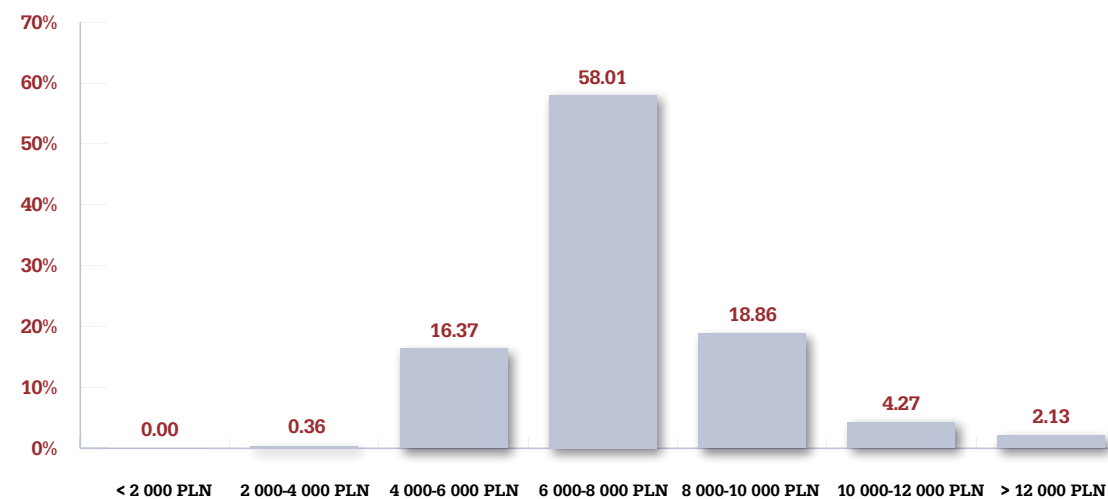


Source: AMRON

### Housing units turnover structure in terms of transaction value in selected Polish cities

Value of **58%** of all transactions recorded in Warsaw in Q2 2013 ranged from PLN 6 000 to PLN 8 000 per sq.m. Share of housing units transaction prices above that level equalled to over **25%** of the total turnover, while housing units of transaction prices not exceeding PLN 6 000 per sq.m. constituted nearly **17%** of the total transactions volume.

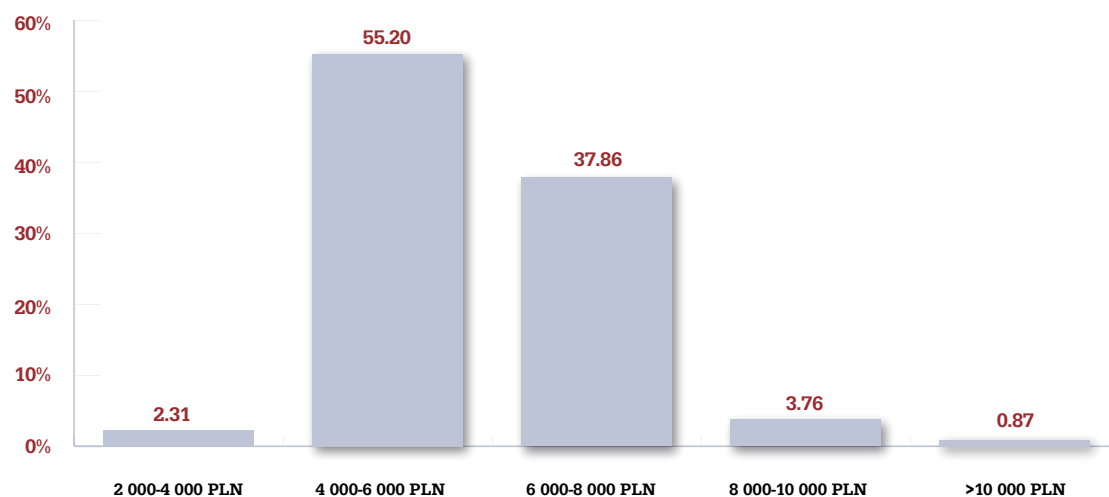
Chart 23. Housing units turnover structure in Q2 2013 in Warsaw in terms of transaction value per sq.m.



Source: AMRON

Value of most transactions concluded in Cracow ranged from PLN 4 000 to PLN 6 000 per sq.m. – share of those transactions equalled to over **55%** of total turnover in Cracow. Housing units with transaction price from PLN 6 000 to PLN 8 000 per sq.m. constituted nearly **38%** of the total turnover structure, while share of transaction prices amounting to more than PLN 8 000 per sq.m. was incomparably lower than in capital city and it equalled to **4.63%**.

Chart 24. Housing units turnover structure in Q2 2013 in Cracow in terms of transaction value per sq.m.



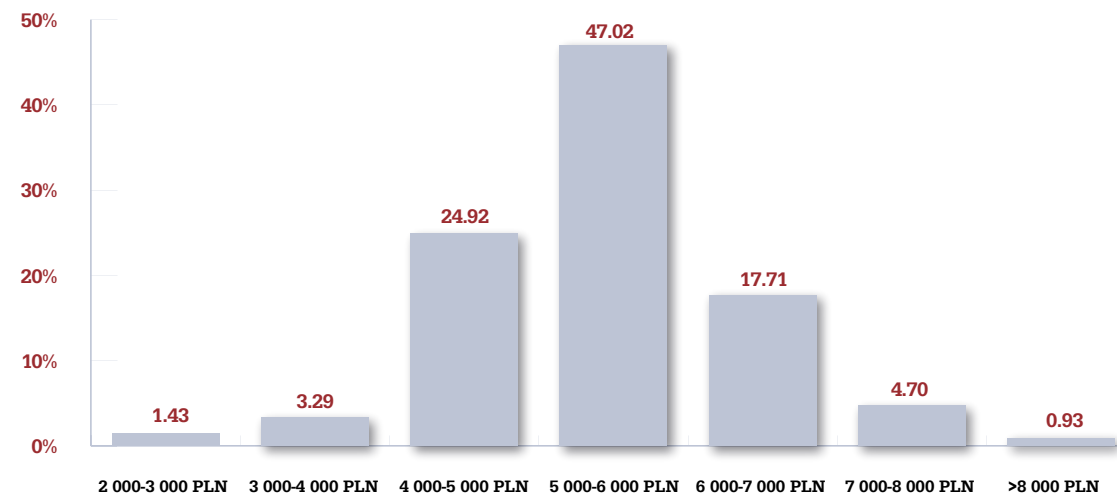
Source: AMRON

Transaction structure in terms of value in Poznan, Gdansk and Wroclaw was similar: dominant share constituted transactions with 1 square meter price at the level from PLN 5 000 to PLN 6 000. In Wroclaw that share of that segment equalled to **47%** of all registered transactions, in Poznan – **42%** and in Gdansk it was **39%** of total turnover.

The most significant difference between those three cities concerned housing units with price per square meter amounting from PLN 4 000 to PLN 5 000. In Poznan, share of transactions in that price range equalled to **30.88%** of total turnover, similarly in Gdansk,

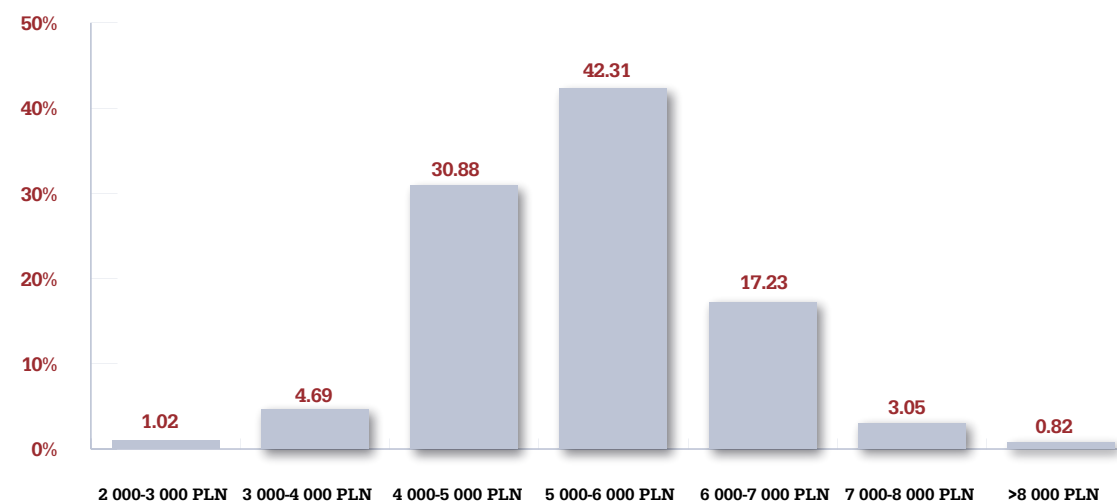
where it was **30.49%**, but in Wroclaw it was only **24.92%**. Share of flats with transaction price at the level from PLN 6 000 to PLN 7 000 per square meter constituted approx. **17%** of total turnover volume both in Poznan and Wroclaw, while in Gdansk it was **20.39%**.

Chart 25. Housing units turnover structure in Q2 2013 in Wroclaw in terms of transaction value per sq.m.



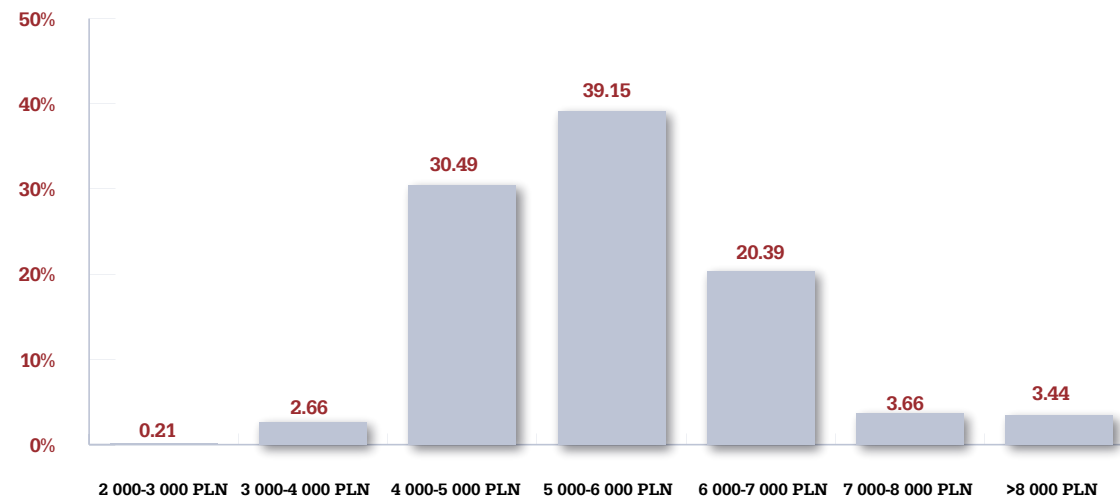
Source: AMRON

Chart 26. Housing units turnover structure in Q2 2013 in Poznan in terms of transaction value per sq.m.



Source: AMRON

Chart 27. Housing units turnover structure in Q2 2013 in Gdansk in terms of transaction value per sq.m.

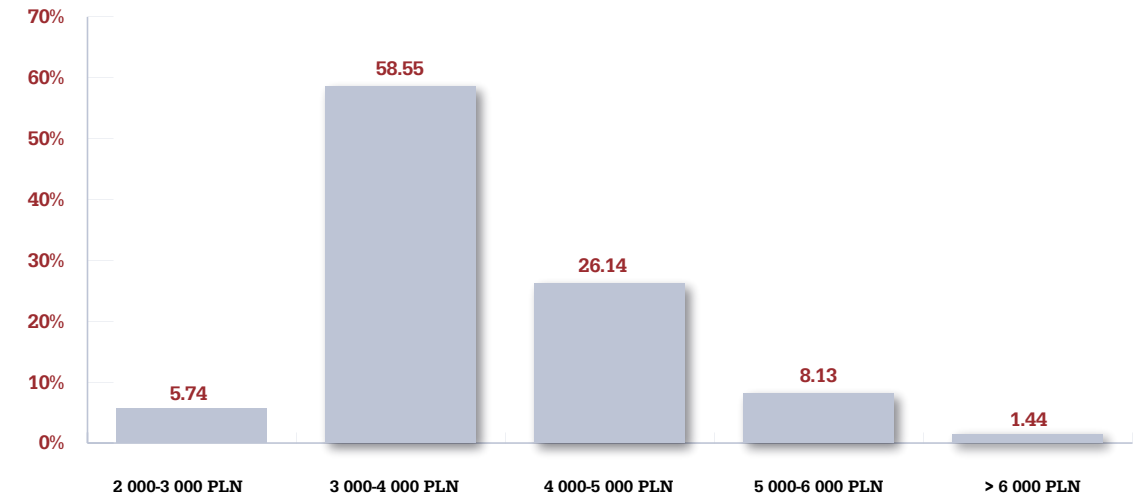


Source: AMRON

Dispersion of prices noted in Lodz in second quarter of 2013 was much smaller than in other analysed cities. Turnover in Lodz was dominated by transactions with 1 square meter price in range from

PLN 3 000 to PLN 4 000 – share of those transactions equalled to **58.55%** of total turnover volume.

Chart 28. Housing units turnover structure in Q2 2013 in Lodz in terms of transaction value per sq.m.



Source: AMRON

## Commentary to the Report – Enter the Dragon

### – Professor Jacek Łaszek, Warsaw School of Economics



There are two factors that may cause problems in housing sector or even economic crisis. The first one, inflexible in short periods of time supply, makes the demand alterations induce prices changes that can even evolve in self-powered spiral. We witnessed it not so long ago in Poland, luckily without any serious consequences. Another one is over-activeness of politicians, intending to realize their election gimmicks or even private businesses through so called “housing policy”.

Unfortunately, we have many such examples also in Poland. We can only be glad that the central bank and monetary policy remain out of politics’ hands, what reduces the scale of their destructive influence on housing market. Besides, in Poland there is another important factor – weak competition in developer’s sector dominated by the big companies. In consequence, they promptly increase prices when the demand goes up and stiffen them when it drops. This is why we still have relatively high prices and constant tendency of flats overproduction, as on the paper they bring high pay-off. In real life, however, flats won’t be sold if prices are not reduced.

Despite the problems, the housing sector slowly gets back to balance after the flow of loans denominated in Swiss francs, governmental pouring fuel to the flames by implementing “Family on Its Own” Programme, careless buying, euphoria and developer’s hazardous behavior. Recently, another player entered the scene – the central bank. Monetary policy is not aimed on any particular sector, but the whole weakening economy, however it is the housing sector that is impacted the most. Unlike the rest of the economy, react-

ing moderately on monetary policy, housing sector in the main cities is strongly dependent on the level of interest rates and sensitive on their changes. Reduction of the interest rates on housing loans means installments lower by 4-5 bln PLN on a yearly basis, that can be spent on consumption. Similarly, reduction of the rates of newly granted loans in conjunction with more and more reasonable prices should increase the demand for flats. Besides, the demand, aside from the periods of over-expansive politics of the banks, is exceptionally stable. The demand for flats depends on demographics and earnings that change relatively slowly. Unless we suddenly start to believe that we are actually much more rich country that can afford much more flats. Unfortunately, nothing is free in economy, what can be clearly seen in countries that started to believe that they are richer than they really were (Greece, Ireland...).

Fiscal consequences of announced, more and more ambitious from the point of view of spending, governmental Programme “Flat for Youth” and other similar are being just discussed (to nationalize pension funds or to increase taxes). Sector consequences seem to be obvious – the new program will increase both prices and developers’ profits. It does not mean that I’m against high profits, which are actually the basis of the business, especially developers’ (high risk). But it should come from honest competition, not from the taxpayers’ or future pensioners’ pocket. Maybe it is time to consider “housing policy” not as an election campaign vehicle or instrument of private interest, but also interest of those, to whom it is theoretically addressed.

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.

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