

AMRON-SARFiN Report

on housing loans
and real estate transaction prices



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Report in numbers

Q3 2012		change Q3/Q2
PLN 313.743 billion	total housing loans debt	1.30% ↓
1.704 Mio	number of active loan agreements	2.32% ↑
50 691	number of concluded agreements	2.16% ↑
PLN 10.021 billion	value of concluded agreements	0.23% ↓
PLN 199 746	average value of a housing loan	1.47% ↓
118	Housing Availability Index (HAI M3)	4 points ↓
47.24%	share of new housing loans with LtV above 80%	2.05 percentage points ↓
97.37%	share of new housing loans in PLN, by value	2.76 percentage points ↑
0.17%	share of new housing loans in CHF, by value	0.05 percentage points ↑
2.42%	share of new housing loans in EUR, by value	2.77 percentage points ↓
PLN 1.95 billion	value of loans granted under the „Family on Its Own” programme	9.67% ↑
PLN 7 333	average transaction price per square meter of a dwelling in Warsaw	1% ↓

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Introduction – about the Report

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



Dear Sirs,

It's been already three years since the first Report on housing loans and real estate transaction prices (commonly known as AMRON-SARFiN Report) was developed by AMRON Centre and published by Polish Banks Association. The first issue of the Report was addressed to the attendees of the Sixth Congress on Housing Finance on November 2009.

This period of last three years was a difficult time of test for Polish housing and mortgage markets in global crisis conditions. The results of that test are systematically recorded in successive issues of our Report, since the demand for reliable and dependable information is systematically growing. With a great satisfaction we observe the growing group of Report's regular readers, including professional market participants and its observers, as well as potential investors from all European countries. Our response to increasing interest in trustworthy information on Polish market is AMRON-SARFiN Report available in English since the beginning of 2011 and since September 2011 – in extended version. Orders for specialist, individual reports, addressed to AMRON Market Research and Analysis Division by developers and investors prove that AMRON's reports are found solid and reliable. At the same time, we observe increasing interest in our reports on changes in average prices of housing units, construction plots and rural areas for particular locations, actualized on quarterly basis and available at AMRON Centre website. For housing units located in seven major Polish cities, property value estimation report enables to estimate a predictable value of a housing unit as for the estimation date.

We do appreciate all valuable, both positive and critical, remarks and comments to the Report, expressed in several publications, on internet discussions or in messages addressed directly to authors of the Report. I believe we have made good use of them.

Quality of AMRON Centre's analyses and reports is determined most of all by the volume and quality of collected data. During last three years, banking and financial sector participants of the System were expanded by property valuers and brokers, who support AMRON database with high-quality data on real estate market transactions. It is worth mentioning that in the period from the first until current issue of the Report, AMRON's database resources doubled – in November 2009 there were approximately 740 thousand of records, while now (as for October 31, 2012) there are almost 1.36 million of records. Currently, 246 financial institutions uses AMRON System for daily business operations, including National Bank of Poland. AMRON is also available for several public institutions.

Similarly to previous editions, in this issue we present results of the third quarter of 2012 related to the results of few previous quarters. Alarming conclusions unfortunately confirm continuous downward trend that has been observed already for five quarters – both on mortgage loans market and on housing unit transactions market, which is accompanied with further decrease of transaction prices. As far as volume of newly granted loans is concerned, results of third quarter were better than those in previous quarter – in Q3 2012 banks in Poland granted 50 691 loans. It seems that such a result effects from increasing purchasers' interest in state's subsidy granted under the "Family on Its Own" programme, which is to be terminated at the end of the year.

While the amount of loans granted in Q3 2012 is slightly higher than in previous quarter, the analysis of the value of newly granted loans

prove the systematic diminishing of the total value of newly granted loans, lasting since Q3 2011. In Q3 2012 the total value of new loans portfolio amounted to PLN 10.021 Mio. At the same time, the average amount of the particular granted mortgage loan diminished as well. There is also observed a continuous increase of PLN loans share in the new portfolio – in Q3 2012 it reached the level of 97%.

Correction of the PLN exchange rates to CHF and EUR resulted in stabilisation of the total mortgage loans amount of the whole Polish banking sector at the level of PLN 313 billion (volume of the total mortgage portfolio amounted to 1 704 414 active loans).

Analysis of housing market in Q3 2012 confirmed our previous estimations on significant influence of the new Act on protecting rights of housing unit or single family-house purchasers on the developers market. After large number of constructions started in April, before the date of the Act's coming into force, in Q3 2012 the number of new housing constructions started decreased by 42%, in relation to the previous quarter. The number of construction permits issued diminished as well – in Q3 2012, the total number of new construction permits amounted to 40 021, while in Q2 2012 there were 49 842 new construction permits, which makes a decrease of almost 25%.

Third quarter of 2012 brought further decline of average prices in all the biggest cities in Poland. The largest decline of the average transaction price of 1 sq. m. of dwelling at the level of 4.8% was noted in Lodz, while the smallest change in the average price – at the level of 0.3% – was recorded in Bialystok. In capital city, the average transaction price declined to PLN 7 303 per sq. m., what means a drop of PLN 74 (in relation to the price level of Q2 2012). Comparison of the current results and the results of the corresponding period of 2011 prove the maximal price decline in Lodz and Katowice agglomeration – with a drop of over 10%. The average housing price in Warsaw diminished by PLN 452 (5.8%), comparing prices noted in Q3 2011 and Q3 2012.

One of the most significant stimulus of the housing prices decline was increase in supply of newly-built housings observable since half-year of 2010, as well as more and more restricted availability of mortgage loans. Considering the commonly shared opinion that the year 2013 will be the moment of Polish economy's greatest depression, a forecast of continuous, though slower than in the current year, decrease in transaction prices until spring of 2014 is probable. For the same reasons, mortgage results of 2013 may be lower than those of the crisis year 2009, i.e. at the level of PLN 37 – 39 billion. And as far as the prognosis of the final result of the current year is concerned, the estimation of the result of 200 000 granted loans for the total amount of PLN 42 billion (PLN 2 billion lower than estimated a year ago) seems to be justified.

Recently announced new government programme provisionally called „Flat for Youth” will definitively not be a solution for the above pessimistic diagnosis, notwithstanding its final assumptions and implementing date.

Without a long-term program of state support for housing development, including a system stimulating households to long-timesaving, it is hard to expect any improvement neither in mortgage lending, nor in housing development in general.

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

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

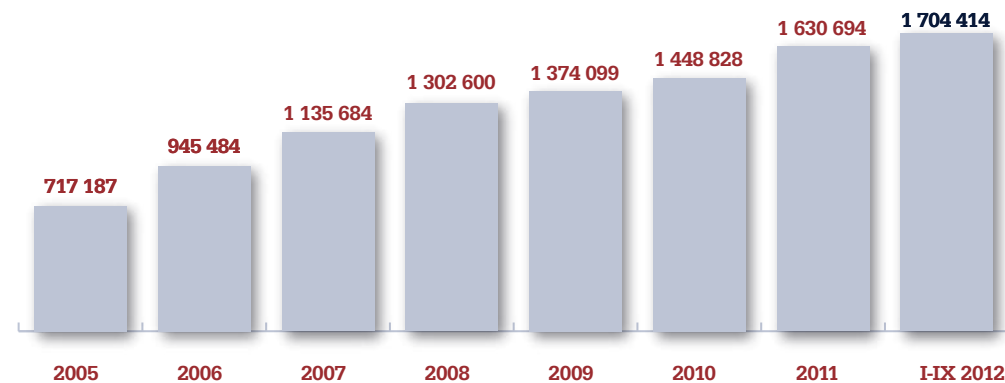
* AMRON Centre was established by Polish Banks Association to manage and develop the System for Analysis and Monitoring of Real Estate Market Transactions and it operates within the organizational structure of a limited-liability company Centre of Banking Law and Information.

Situation on housing loans market

Number of active housing loans

After third quarter of 2012, the total number of active housing loans increased by 38 653 loans comparing to increase of 11 481 loans after second quarter. As for the end of September 2012, the total portfolio of active housing loans amounted to 1 704.

Chart 1. Total number of active housing loans in 2005 – I-IX 2012



Source: Polish Banks Association

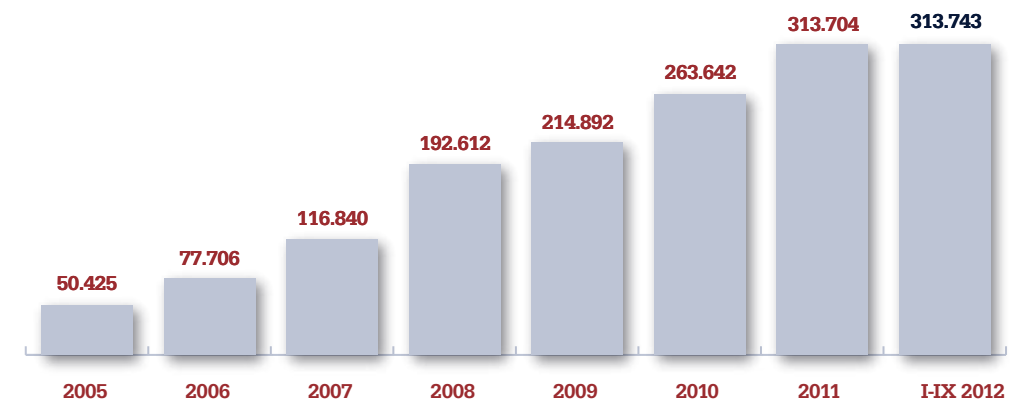
Total housing loans debt

As for the end of third quarter of 2012, total value of mortgage debt was **1.30%** lower than the value noted after second quarter. Decrease in value of mortgage loans portfolio was determined by reduction in the CHF and EUR exchange rates – according to NBP data, the average weighted CHF and EUR exchange rates at the end of June 2012 equalled respectively to PLN 3.5865 and PLN 4.3072, while as for the end of September 2012 it diminished to the level of PLN **3.4168** and **4.1314**. These changes resulted in decrease in value of Polish households debt. It is also worth mentioning that decline of total housing loans debt was a consequence of total repayment of part of loan portfolio and new loans are granted for lower amounts. In

Q3, 2012 total housing loans debt amounted to **PLN 313.743 billion** (comparing to PLN 317.872 billion as for the end of Q2, 2012).

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

Chart 2. Total debt from housing loans in 2005 – I-IX 2012 (PLN billion)



Source: Polish Banks Association, National Bank of Poland

Number and value of new housing loans

After third quarter of 2012, a slight decrease in value of new housing loans was noted and it confirmed the continuous downward trend observed since Q3 2011. Comparing to Q2 2012, when the value of new loans amounted to PLN 10.044 billion, the total value of loans granted in Q3 2012 equalled to PLN 10.021 billion. At the same time, the number of new loan agreements concluded in Q3 2012 amounted to 50 691, i.e. 2% more than in previous quarter. Increase in number of new loans and simultaneous decrease of value of those loans prove that the average value of a mortgage loan is systematically decreasing.

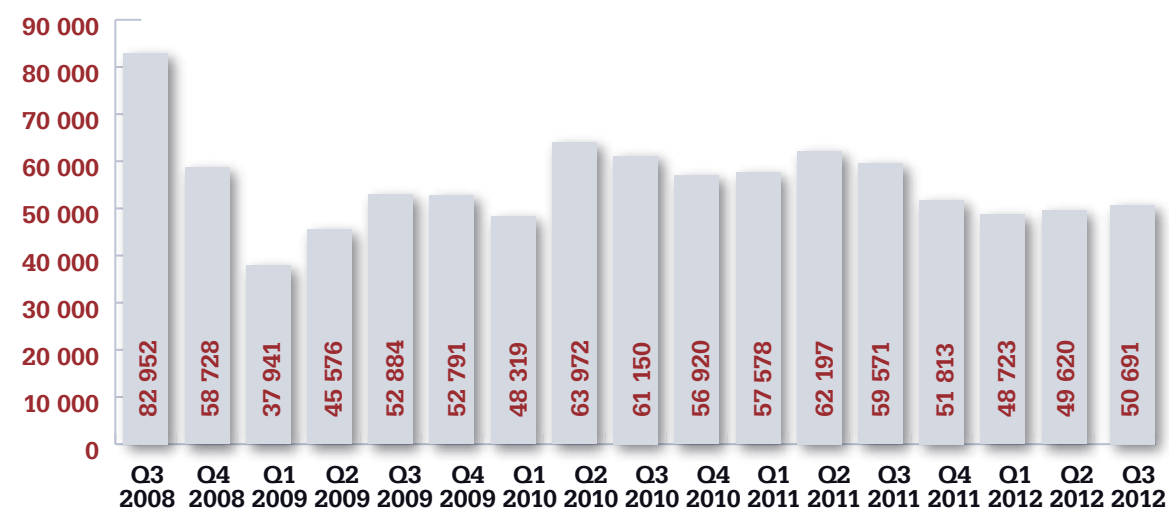
The table below presents the mortgage lending figures of Polish banks from Q3 2008 until Q3 2012, including number and total value of loans granted in particular quarters.

Table 1. Value and number of new housing loans in Q3 2008 – Q3 2012

quarter	value (PLN Mio)	change/previous quarter	number	change/previous quarter
Q3 2008	16.803	2.65% ↗	82 952	0.75% ↗
Q4 2008	11.867	29.38% ↘	58 728	29.20% ↗
Q1 2009	7.609	35.88% ↘	37 941	35.40% ↘
Q2 2009	9.376	23.22% ↗	45 576	20.12% ↗
Q3 2009	10.945	16.73% ↗	52 884	16.03% ↗
Q4 2009	10.804	1.29% ↘	52 791	0.18% ↘
Q1 2010	9.809	9.21% ↘	48 319	8.47% ↘
Q2 2010	13.523	37.86% ↗	63 972	32.40% ↗
Q3 2010	13.091	3.20% ↘	61 150	4.41% ↘
Q4 2010	12.237	6.52% ↘	56 920	6.92% ↘
Q1 2011	12,252	0.12% ↗	57 578	1.16% ↗
Q2 2011	13.395	9.33% ↗	62 197	8.02% ↗
Q3 2011	12.774	4.64% ↘	59 571	4.22% ↘
Q4 2011	10.789	15.54% ↘	51 813	13.02% ↘
Q1 2012	10.200	5.46% ↘	48 723	5.96% ↘
Q2 2012	10.044	1.53% ↘	49 620	1.84% ↗
Q3 2012	10.021	0.23% ↘	50 691	2.16% ↗

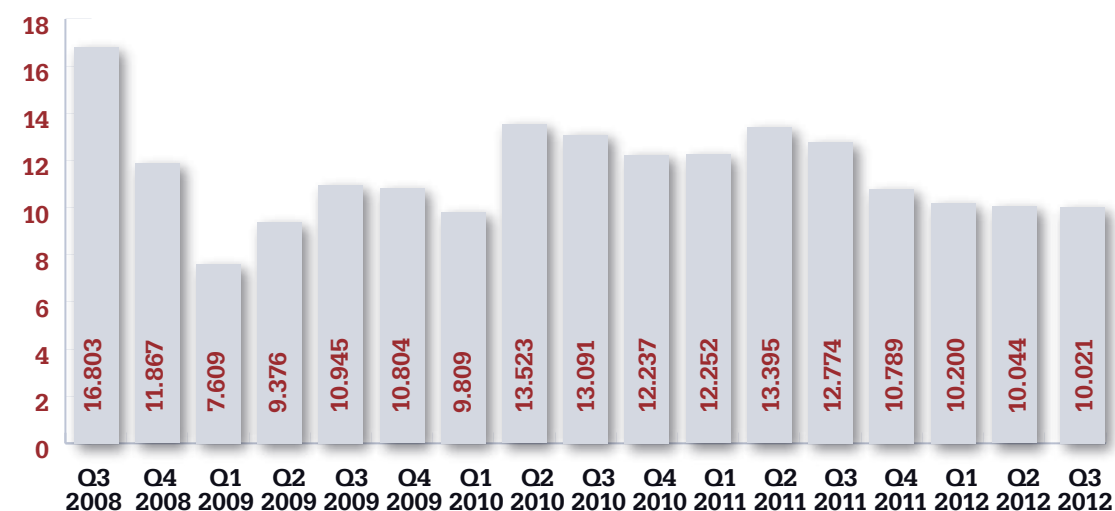
Source: Polish Banks Association

Chart 3. Number of new loan agreements in Q3 2008 – Q3 2012, quarterly



Source: Polish Banks Association

Chart 4. Value of new loan agreements in Q3 2008 – Q3 2012 (PLN billion)

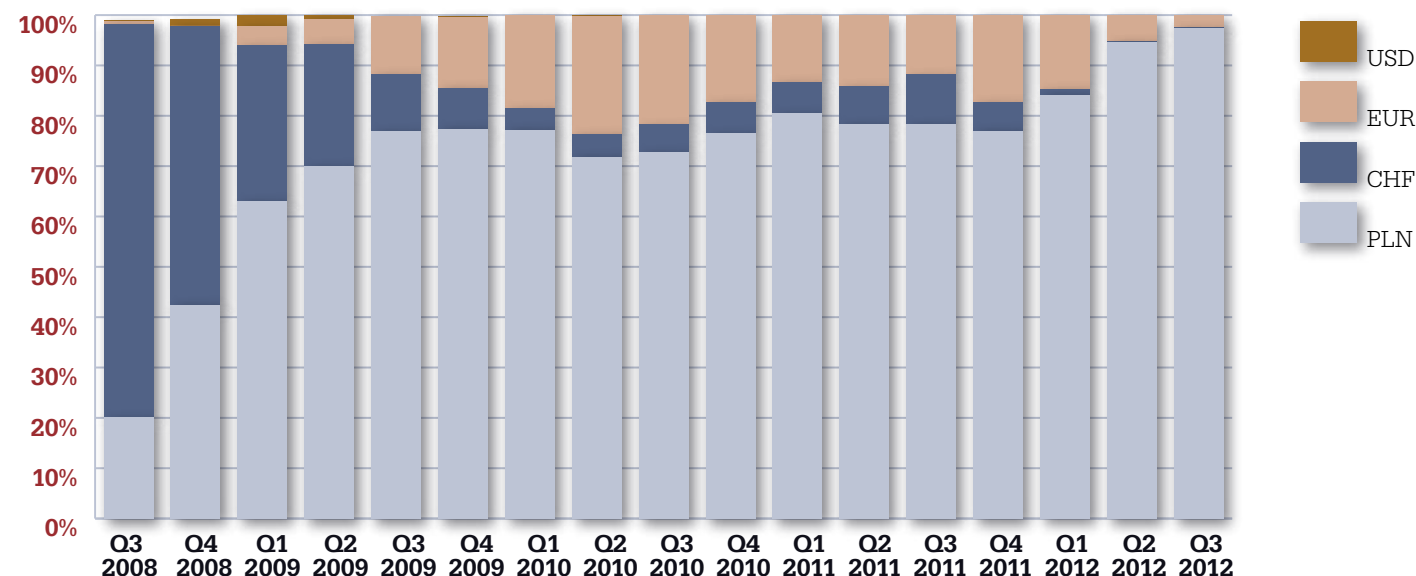


Source: Polish Banks Association

Loan currency

Share of Polish zloty in currency structure of newly granted loans from the value perspective increase in Q3 2012 up to the level of **97%**. Comparing to Q2 2012, the increase amounted to over **2 percentage points**. From July to September, share of EUR loans declined by almost **3 percentage points** and as for the end of Q3 2012 it reached the level **2,42%**. Share of loans denominated to other currencies equalled to approx. **0.2%**.

Chart 5. Currency structure of new loans in Q3 2008 – Q3 2012



Source: Polish Banks Association

Table 2. Currency structure of the value of new loans in Q3 2008 – Q3 2012

quarter	PLN	CHF	EUR	USD	other
Q3 2008	20.10%	78.10%	0.50%	0.20%	1.10%
Q4 2008	42.50%	55.40%	0.00%	1.30%	0.80%
Q1 2009	63.00%	31.00%	3.80%	2.20%	0.00%
Q2 2009	70.01%	24.26%	4.88%	0.84%	0.01%
Q3 2009	76.94%	11.34%	11.45%	0.10%	0.17%
Q4 2009	77.44%	8.11%	14.02%	0.16%	0.27%
Q1 2010	77.23%	4.28%	18.35%	0.10%	0.05%
Q2 2010	71.90%	4.40%	23.60%	0.10%	0.02%
Q3 2010	72.81%	5.38%	21.76%	0.03%	0.03%
Q4 2010	76.55%	6.06%	17.33%	0.04%	0.02%
Q1 2011	80.55%	6.12%	13.20%	0.12%	0.01%
Q2 2011	78.36%	7.49%	14.10%	0.03%	0.01%
Q3 2011	78.36%	9.75%	11.79%	0.08%	0.02%
Q4 2011	77.04%	5.67%	17.17%	0.10%	0.02%
Q1 2012	84.20%	1.06%	14.65%	0.07%	0.01%
Q2 2012	94.61%	0.12%	5.19%	0.07%	0.01%
Q3 2012	97.37%	0.17%	2.42%	0.02%	0.02%

Source: Polish Banks Association

Quality structure of mortgage loans portfolio

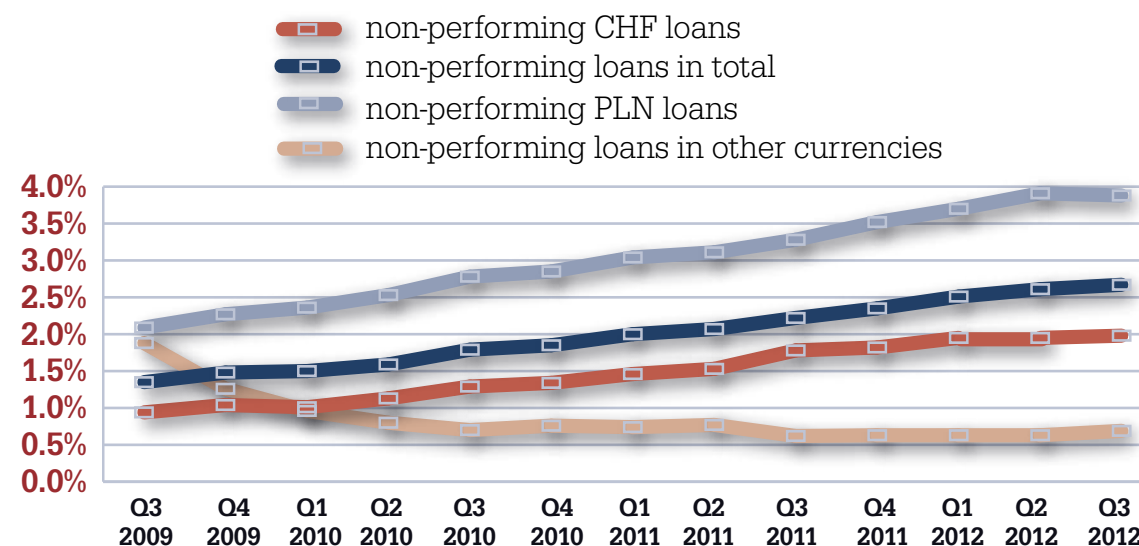
Table 3. Share of non-performing loans in total mortgage loans portfolio in Q3 2009 – Q3 2012

quarter	non-performing loans in total	non-performing PLN loans	non-performing CHF loans	non-performing loans in other currencies
Q3 2009	1.35%	2.09%	0.94%	1.88%
Q4 2009	1.48%	2.27%	1.04%	1.26%
Q1 2010	1.50%	2.36%	1.01%	0.96%
Q2 2010	1.59%	2.53%	1.13%	0.80%
Q3 2010	1.79%	2.78%	1.29%	0.70%
Q4 2010	1.85%	2.85%	1.34%	0.76%
Q1 2011	2.00%	3.04%	1.46%	0.74%
Q2 2011	2.07%	3.11%	1.53%	0.77%
Q3 2011	2.22%	3.28%	1.78%	0.62%
Q4 2011	2.35%	3.52%	1.82%	0.63%
Q1 2012	2.51%	3.70%	1.95%	0.63%
Q2 2012	2.61%	3.91%	1.95%	0.63%
Q3 2012	2.67%	3.88%	1.98%	0.69%

Source: Polish Banks Association, National Bank of Poland

Third quarter of 2012 was the subsequent period, when the increase of non-performing loans share was recorded, however this quarter's increase was insignificant and it amounted to nearly **0.06** percentage points. Share of non-performing loans in total housing loans portfolio as for the end of Q3 2012 reached the level of **2.67%**.

Chart 6. Share of non-performing loans in total mortgage portfolio in Q3 2009 – Q3 2012

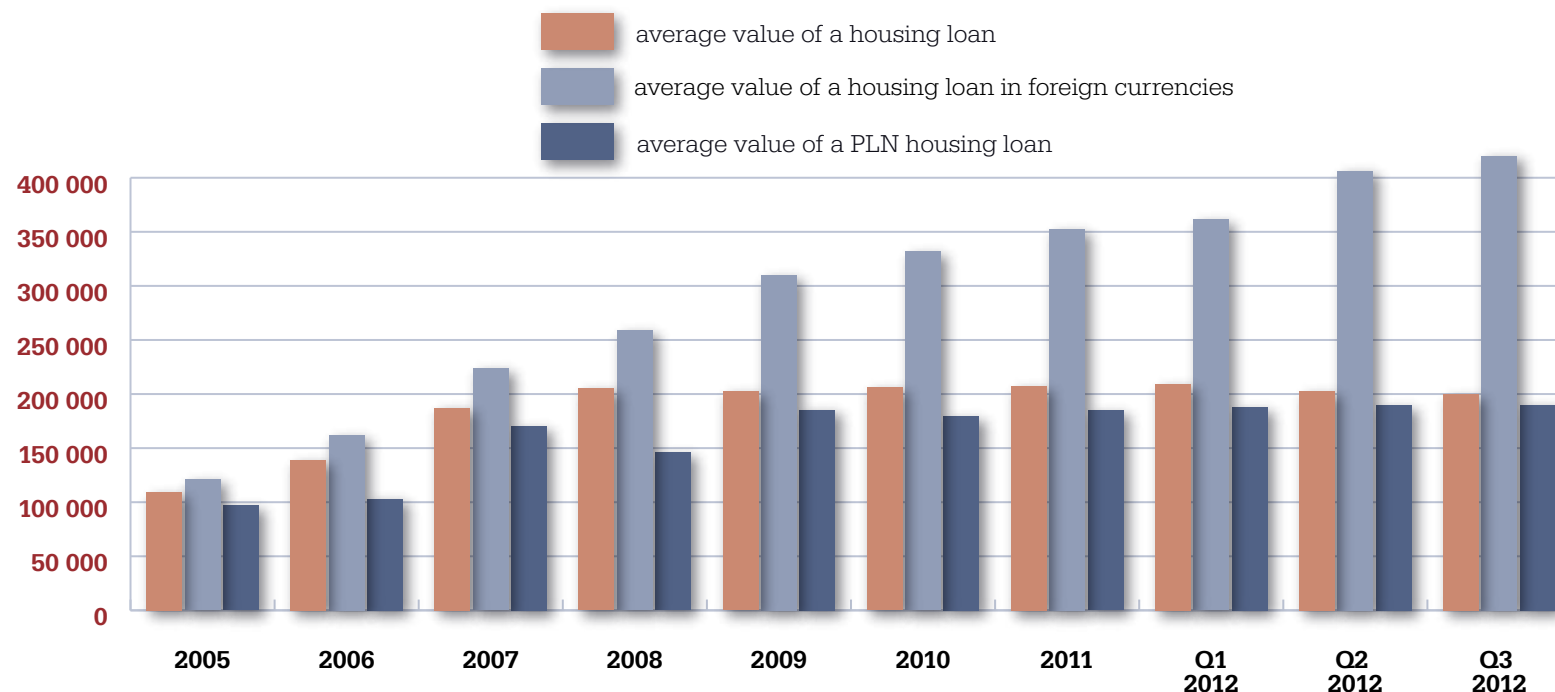


Source: Polish Banks Association, National Bank of Poland

Average value of a loan

Increased share of PLN loans resulted in continuous diminishing of the average value of a newly granted loan, which as for the end of Q3 2012 amounted to **PLN 199 746** (**1.47%** less than in previous quarter). The average value of a PLN loan granted in Q3 2012 was quite stable comparing to the value of a loan granted in Q2 2012 – it amounted to **PLN 190 145** (i.e. only **PLN 280** less than in Q2 2012). The average value of a currency loan increased up to the level of **PLN 420 253**. Restricted banks' policies in granting currency loans resulted in limitations in availability of those loans: currency loans are granted exclusively to borrowers with high net incomes. Moreover, the currency loans amounts are usually much higher than amounts of PLN housing loans.

Chart 7. Average value of a housing loan, aggregated and by currency in 2005 – Q3 2012



Source: Polish Banks Association

Table 4. Average value of a loan, aggregated and by currency in Q3 2011 – Q3 2012

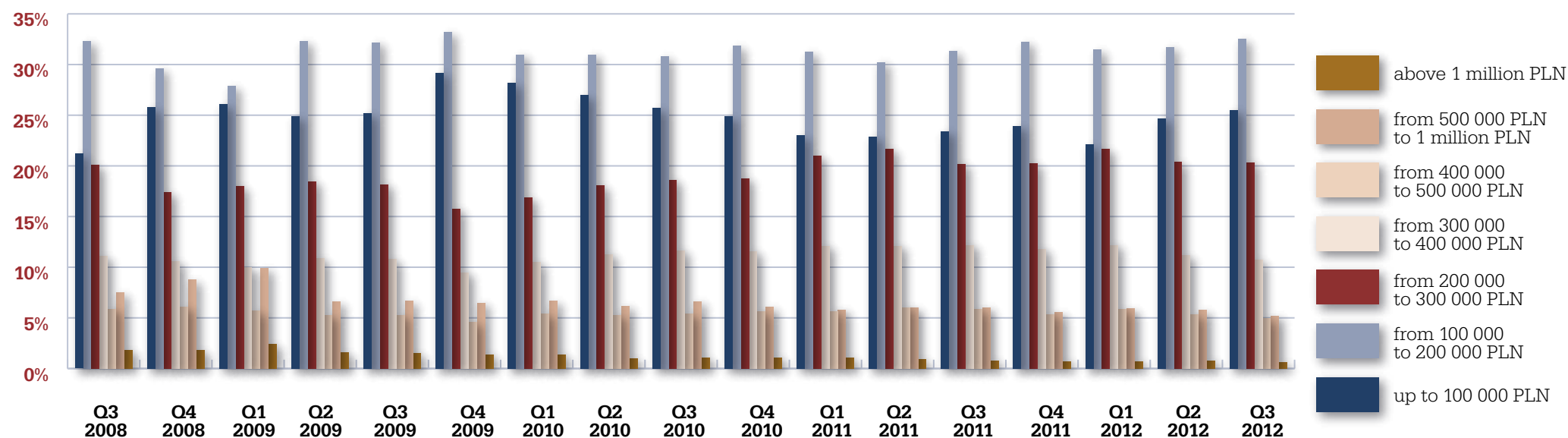
quarter	average value of a housing loan	average value of a housing loan in foreign currencies	average value of a PLN housing loan
Q3 2011	209 114	352 343	187 056
Q4 2011	207 571	352 576	184 771
Q1 2012	209 348	361 417	187 865
Q2 2012	202 718	406 512	189 865
Q3 2012	199 746	420 253	190 145

Source: Polish Banks Association

Structure of new loans, by amount

Decline in number of new housing loans granted in Q3 2012 was noted in segment of loans in the amount above PLN 200 000, while the share of loans amounting to max. PLN 200 000 was constantly increasing since the beginning of 2012, and at the end of September 2012 it reached the level of **58%**. The greatest increase was recorded in the segment of loans in the amount up to PLN 100 000 – in analysed period its share exceeded **25%**. The most popular loans amounted from PLN 100 000 to PLN 200 000.

Chart 8. Structure of the new loans amount in Q3 2008 – Q3 2012



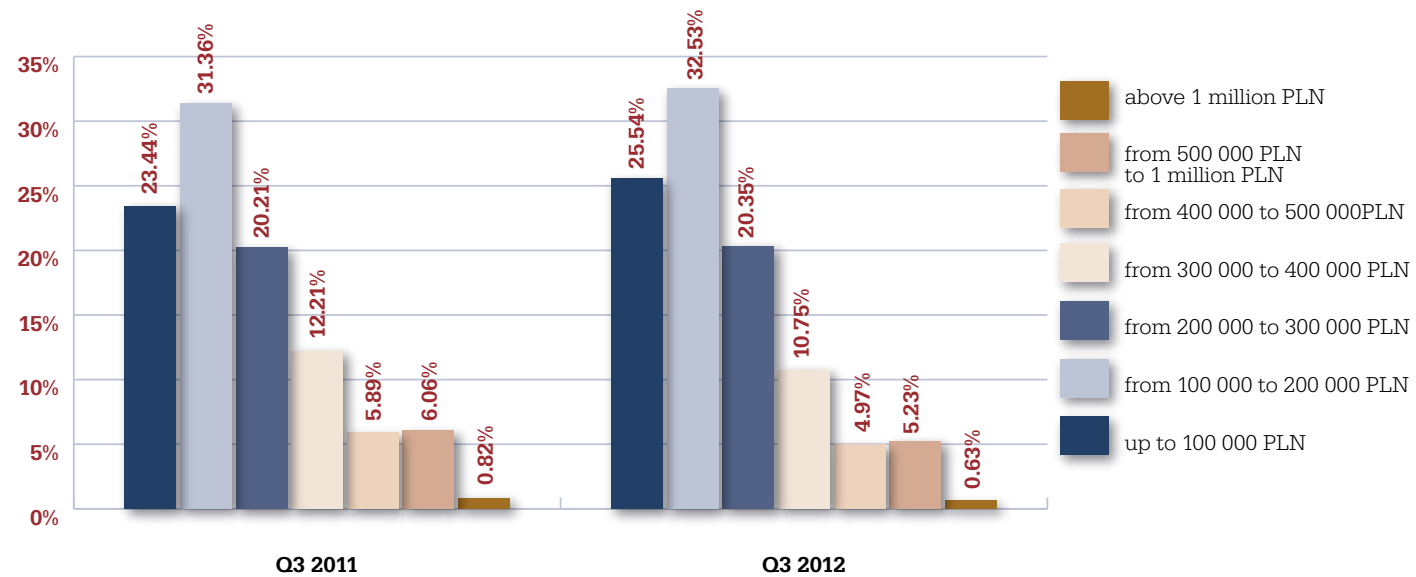
Source: Polish Bank Association

Table 5. Structure of the new loans amount in Q3 2008 – Q3 2012

	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
up to 100 000 PLN	21.20%	25.08%	26.10%	24.90%	25.20%	29.20%	28.20%	27.00%	25.72%	24.90%	23.03%	22.92%	23.44%	23.96%	22.14%	24.70%	25.54%
from 100 000 to 200 000 PLN	32.30%	29.60%	27.90%	32.30%	32.20%	33.20%	31.00%	31.00%	30.81%	31.87%	31.26%	30.26%	31.36%	32.26%	31.51%	31.74%	32.53%
from 200 000 to 300 000 PLN	20.10%	17.40%	18.00%	18.50%	18.20%	15.80%	16.90%	18.10%	18.65%	18.79%	21.00%	21.68%	20.21%	20.25%	21.65%	20.42%	20.35%
from 300 000 to 400 000 PLN	11.10%	10.60%	10.00%	10.90%	10.80%	9.50%	10.50%	11.30%	11.68%	11.60%	12.11%	12.13%	12.21%	11.83%	12.19%	11.21%	10.75%
from 400 000 to 500 000 PLN	5.90%	6.10%	5.70%	5.30%	5.30%	4.60%	5.40%	5.30%	5.41%	5.66%	5.68%	6.06%	5.89%	5.38%	5.85%	5.32%	4.97%
from 500 000 PLN to 1 million PLN	7.50%	8.80%	9.90%	6.60%	6.70%	6.50%	6.70%	6.20%	6.65%	6.07%	5.82%	6.04%	6.06%	5.58%	5.93%	5.79%	5.23%
above 1 million PLN	1.80%	1.80%	2.40%	1.60%	1.50%	1.40%	1.40%	1.00%	1.07%	1.11%	1.09%	0.91%	0.82%	0.74%	0.73%	0.82%	0.63%

Source: Polish Banks Association

Chart 9. Structure of the new loans amount – comparison of Q3 2011 and Q3 2012

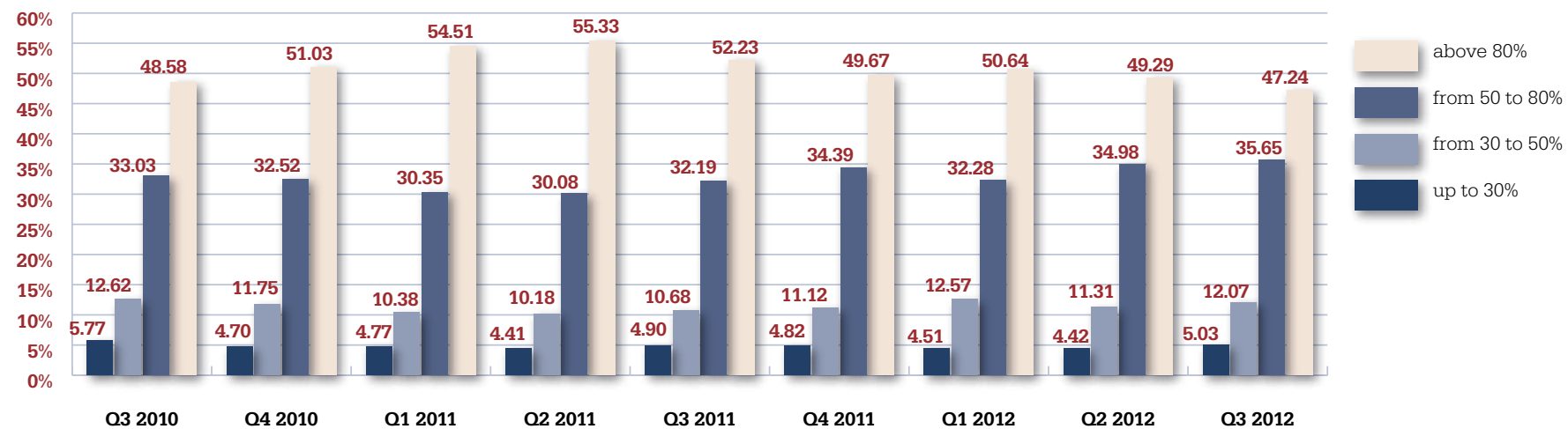


Source: Polish Bank Association

Structure of the LtV ratio

From July till September 2012 the share of loans with LtV ratio at the level up to 80% increased and it reached the level of almost **53%** of the total portfolio of newly granted housing loans. The greatest increase was recorded in segment of loans with LtV ratio from 30 to 50% (**12%** of all new loans granted in Q3 2012). Loans with LtV ratio above 80% still dominate in the total portfolio of new loans, however since Q1 2012 share of those loans is systematically decreasing – as for the end of September 2012 it equalled to **47.24%**.

Chart 10. Structure of LtV ratio of newly granted loans in Q3 2010 – Q3 2012, in terms of value



Source: Polish Bank Association

Table 6. Structure of LtV ratio of newly granted loans in Q3 2010 – Q3 2012

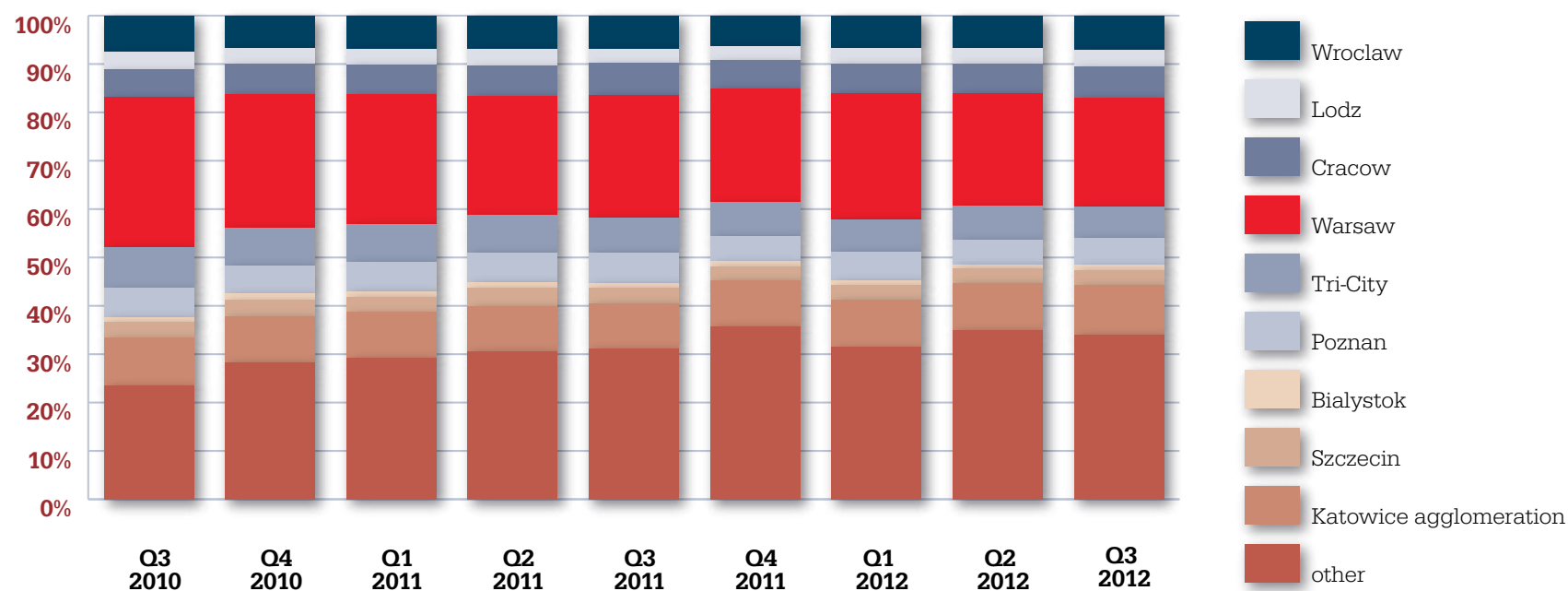
	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
up to 30%	5.77%	4.70%	4.77%	4.41%	4.90%	4.82%	4.51%	4.42%	5.03%
from 30 to 50%	12.62%	11.75%	10.38%	10.18%	10.68%	11.12%	12.57%	11.31%	12.07%
from 50 to 80%	33.03%	32.52%	30.35%	30.08%	32.19%	34.39%	32.28%	34.98%	35.65%
above 80%	48.58%	51.03%	54.51%	55.33%	52.23%	49.67%	50.64%	49.29%	47.24%

Source: Polish Banks Association

Housing loans in major Polish cities

In Q3 2012, slight changes were also observed in value structure of newly granted loans in the biggest Polish cities. Cumulative share of eight the biggest markets equalled to **65%** and it was comparable to the result of the previous quarter. Slight declines were noted in Tri-City and in Warsaw, while the share of smaller markets diminished by **nearly 1 percentage point**.

Chart 11. Value of newly granted loans in major Polish cities in Q3 2010 – Q3 2012



Source: Polish Bank Association

Table 7. Value of newly granted loans in major Polish cities in Q3 2010 – Q3 2012

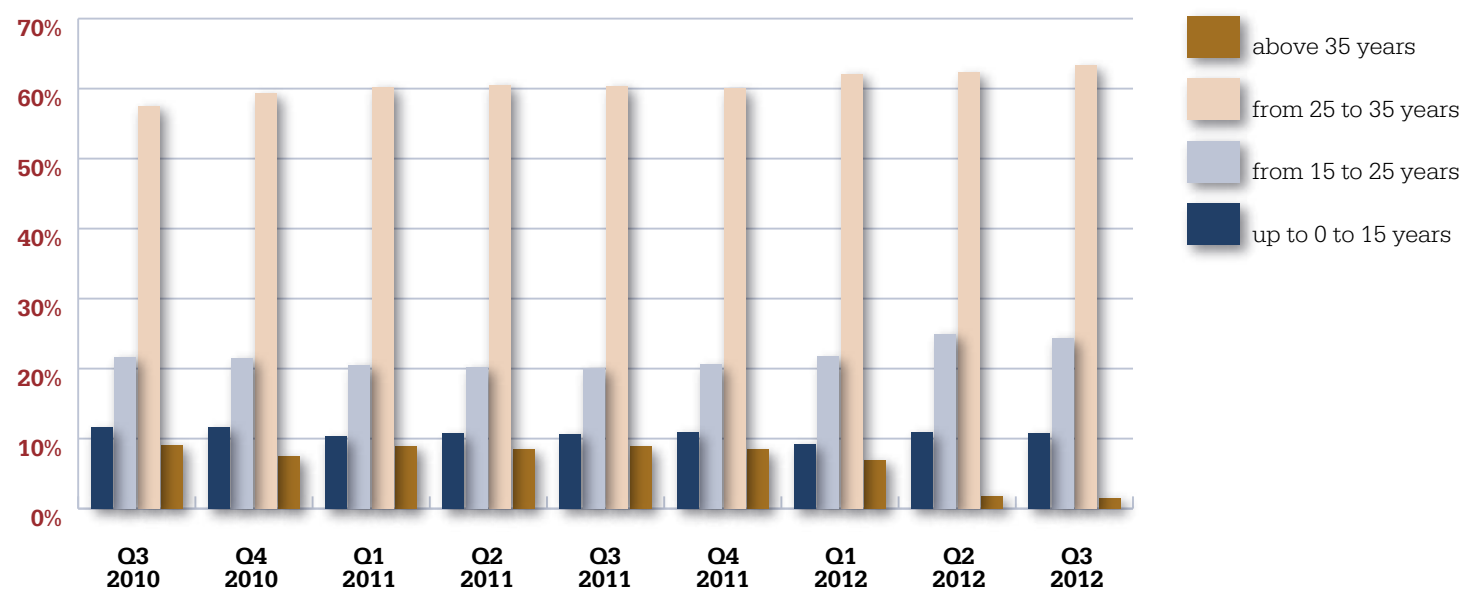
	Wroclaw	Lodz	Cracow	Warsaw	Tri-Citi	Poznan	Bialystok	Szczecin	Katowice agglomeration	other
Q3 2010	7.59%	3.63%	5.74%	30.90%	8.48%	6.06%	1.02%	3.10%	10.00%	23.48%
Q4 2010	6.68%	3.31%	6.28%	27.57%	7.85%	5.78%	1.35%	3.32%	9.49%	28.36%
Q1 2011	6.92%	3.23%	6.18%	26.73%	7.88%	6.06%	1.17%	3.14%	9.42%	29.27%
Q2 2011	6.90%	3.48%	6.17%	24.71%	7.79%	6.00%	1.28%	3.72%	9.37%	30.57%
Q3 2011	6.81%	3.04%	6.58%	25.37%	7.19%	6.32%	1.06%	3.11%	9.26%	31.25%
Q4 2011	6.29%	3.01%	5.77%	23.58%	6.97%	5.29%	0.96%	2.92%	9.40%	35.83%
Q1 2012	6.69%	3.23%	6.16%	26.01%	6.79%	5.87%	1.00%	3.00%	9.78%	31.47%
Q2 2012	6.73%	3.24%	6.03%	23.42%	6.97%	5.13%	0.74%	3.02%	9.78%	34.95%
Q3 2012	7.19%	3.30%	6.48%	22.59%	6.41%	5.63%	0.99%	3.09%	10.24%	34.10%

Source: Polish Bank Association

Lending period

The greatest change in structure of new loans in terms of lending period noted in Q3 2012 referred to segment of loans granted for the period of 35 years and more. After the sharp decrease in share of those loans recorded in previous quarter (of over 5.5 percentage points), third quarter brought the slight decrease at the level of **0.29%**. Share of loans granted for the period from 15 up to 25 years decreased as well (by almost **0.6 percentage points** less than in previous quarter). The only increase recorded in Q3 2012 concerned loans granted for the period from 25 to 35 years and it amounted to **1 percentage point**, comparing Q2 2012.

Chart 12. Structure of new loans by lending period in Q3 2012 – Q3 2012



Source: Polish Bank Association

Table 8. Structure of new loans by lending period in Q3 2010 – Q3 2012

	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
up to 15 years	11.62%	11.67%	10.29%	10.73%	10.69%	10.93%	9.26%	10.94%	10.76%
from 15 to 25 years	21.71%	21.55%	20.50%	20.26%	20.08%	20.59%	21.73%	24.96%	24.39%
from 25 to 35 years	57.57%	59.30%	60.22%	60.50%	60.36%	60.03%	62.07%	62.29%	63.33%
above 35 years	9.11%	7.49%	8.99%	8.51%	8.86%	8.45%	6.95%	1.81%	1.51%

Source: Polish Banks Association

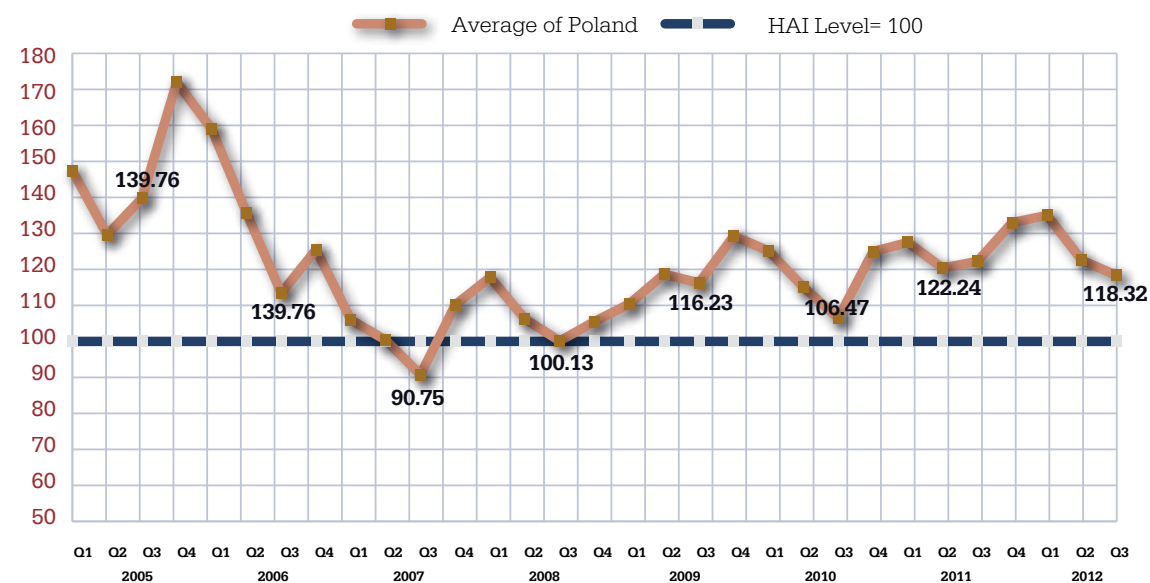
Housing Availability Index M3

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 of dwelling availability in Q3 2012 was influenced by the following factors:

- housing prices decrease in eight major cities monitored for HAI M3 purposes – in third quarter of current year the average transaction prices of surveyed housing units (of approximately 50 sq. m.) declined by **0.42%** in relation to previous quarter and **7.02%** in relation to the corresponding quarter of 2011;
- slight increase of interest rates – according to the National Bank of Poland, the average interest on housing loans for households increased in Q3 2012 by **4** basis points;
- slight increase (by **0.38%**) of net average earnings level per sample family and **3.87%** increase in living costs, which for the Report purposes represent the minimum subsistence level

Summarizing, decline of Housing Availability Index M3 index by 4.21 points to the level of 118.32 points recorded in Q3 2012 was determined by macroeconomic conditions, in particular by decline in transaction prices on housing market and increase of costs of living.

Chart 13. Housing Availability Index (HAI M3) in Q1 2005 – Q3 2012



Source: Polish Bank Association

Purchasing powers on the largest housing markets

Analysis of the average net monthly income in surveyed cities and the average transaction price per a square meter of a housing unit In third quarter of 2012 brings the conclusion that purchasing powers in surveyed cities slightly changed in relations to values noted in previous quarter. From the beginning of the year, the greatest floor area of a housing unit was available for purchasers in Katowice – the average monthly remuneration noted in Q3 2012 equalled to the transaction price of approximately **0.91 sq.m.**,

i.e. slightly more than in Q2 2012, when it was **0.89 sq.m.** It is Cracow, where the average remuneration allowed to purchase the smallest floor area of a dwelling – **0.41 sq.m.** The lowest average monthly remuneration noted in Bialystok enables to buy **0.59 sq.m.** of an average housing unit and this value remained unchanged comparing to previous quarter's analysis.

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

Table 9. Purchasing powers on the largest housing markets in Q3 2012

city	average net monthly income in Q3 2012	average transaction price of 1 sq. m. of housing unit of floor area from 45 sq. m. to 55 sq. m.	purchasable floor area (sq. m.) with the average monthly income in Q3 2012
Katowice	2 751	3 029	0.91
Lodz	2 462	3 663	0.67
Bialystok	2 456	4 141	0.59
Gdansk	2 611	5 075	0.51
Wroclaw	2 628	5 266	0.50
Poznan	2 476	5 067	0.49
Warsaw	3 287	7 349	0.45
Cracow	2 547	6 237	0.41

Source: AMRON, Central Statistical Office

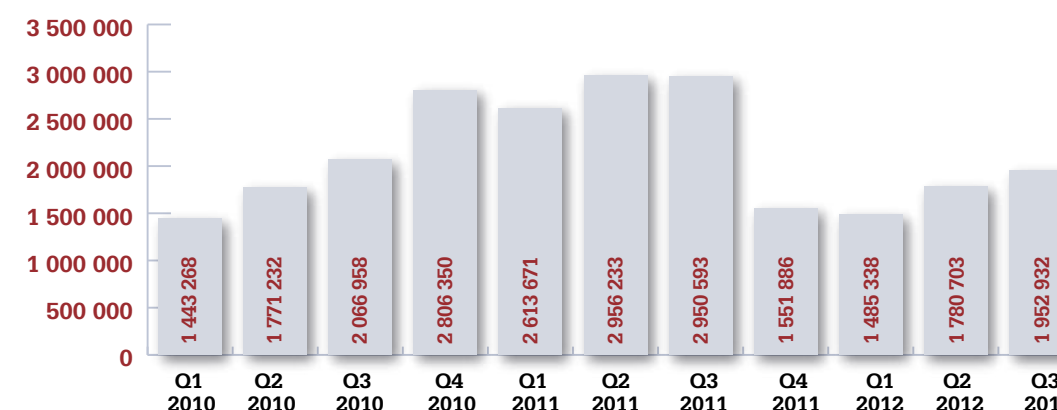
“Family on Its Own” Programme

As expected, in third quarter of 2012 the dynamics of granting loans under the „Family on Its Own” programme escalated. Comparison of results of third quarter with those noted in the previous one

proves the diversion of downward trend in loans granting, which started after implementation of new Programme’s parameters in September 2011. The estimation, that this tendency will continue next quarter (and last quarter of Programme’s functioning) seems reasonable.

In Q3 2012 the number of loans granted under the „Family on Its Own” programme increased by over **10%** comparing to previous quarter and simultaneously the value of granted loans increase by **9.67%**. However, comparing the results of Q3 2012 and Q3 2011, it must be noted the decrease both in value and volume of granted loans – respectively by **33.81%** and **22.06%**.

Chart 14. Value of loans under the “Family on Its Own” programme granted in Q1 2010 – Q3 2012 (PLN thousands)



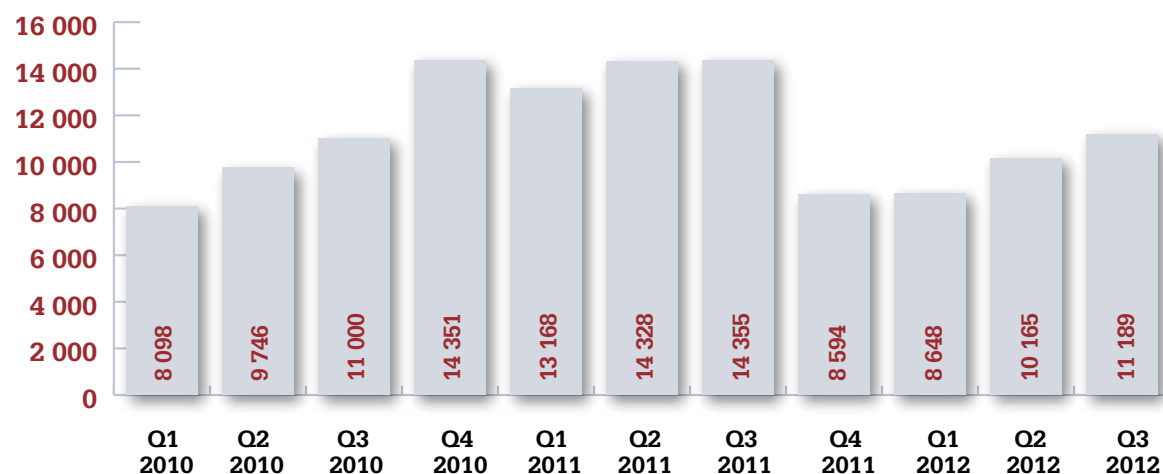
Source: Bank Gospodarstwa Krajowego

Share of loans granted for financing housing units on primary market is still increasing (in Q3 2012 the increase equalled to **15.5%**). At the same time, the increase in number of loans granted for housing unit purchases on secondary market was recorded at the level of **5.72%** and single-family houses construction – **5.38%**.

Similar growth proportions were observable in value structure of loans granted under the Programme. For the primary market, the increase amounted to **17.81%**, which proves market adjustments,

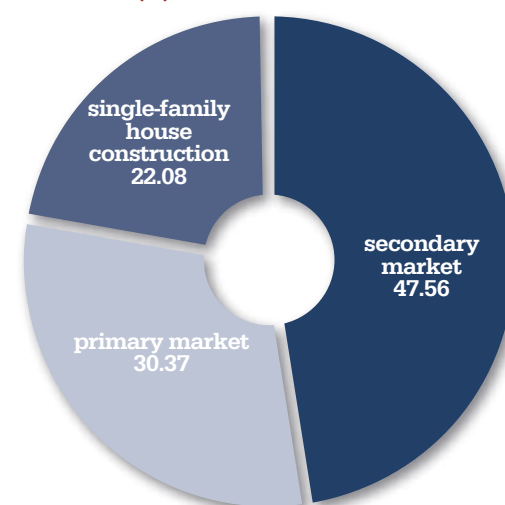
despite high level of price-cost ratios. After the geographic analysis of Programme's lending figures, the role of „Family on Its Own” programme for local markets development should be stressed.

Chart 15. Number of loans under the “Family on Its Own” programme granted in Q1 2010 – Q3 2012



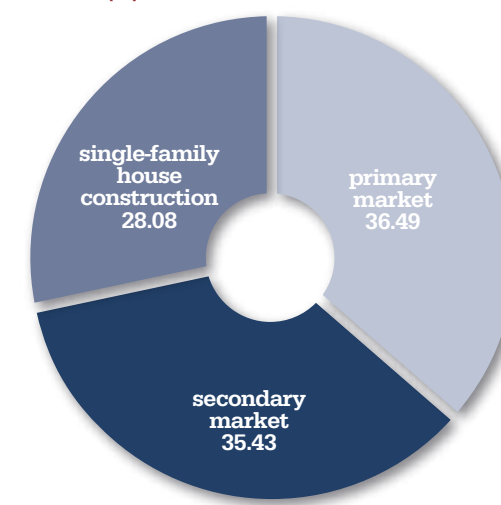
Source: Bank Gospodarstwa Krajowego

Chart 16. Volume structure of loans under the “Family on Its Own” programme granted in Q3 2012 (%)



Source: Bank Gospodarstwa Krajowego

Chart 17. Value structure of loans under the “Family on Its Own” programme granted in Q3 2012 (%)



Source: Bank Gospodarstwa Krajowego

Basic beneficiaries age group established in the amendment to the Act consequently constitute the largest group of borrowers – over **39%** of preferential loans were granted to borrowers of 30-35 years of age.

Table 10. Preferential loans granted under the “Family on Its Own” programme, by borrower age and by market type (secondary, primary and single-family house construction) in Q3 2012

age bracket	secondary market		primary market		single-family house construction		total	
	number	% of share	number	% of share	number	% of share	number	% of share
≤19	19	0.02%	29	0.07%	0	0.00%	48	0.03%
20-24	2 909	3.14%	1 356	3.22%	354	1.15%	4 619	2.79%
25-29	30 915	33.34%	16 883	40.07%	7 147	23.13%	54 945	33.15%
30-34	34 930	37.67%	15 705	37.27%	13 379	43.30%	64 014	38.62%
35-39	15 433	16.64%	5 393	12.80%	6 887	22.29%	27 713	16.72%
40-44	5 212	5.62%	1 615	3.83%	2 001	6.48%	8 828	5.33%
45-49	1 861	2.01%	575	1.36%	684	2.21%	3 120	1.88%
50-54	801	0.86%	301	0.71%	300	0.97%	1 402	0.85%
55-59	396	0.43%	186	0.44%	99	0.32%	681	0.41%
60-64	187	0.20%	68	0.16%	45	0.15%	300	0.18%
65-69	47	0.05%	22	0.05%	4	0.01%	73	0.04%
≥70	13	0.01%	2	0.00%	1	0.00%	16	0.01%
total	92 723	100.00%	42 135	100.00%	30 901	100.00%	165 759	100.00%

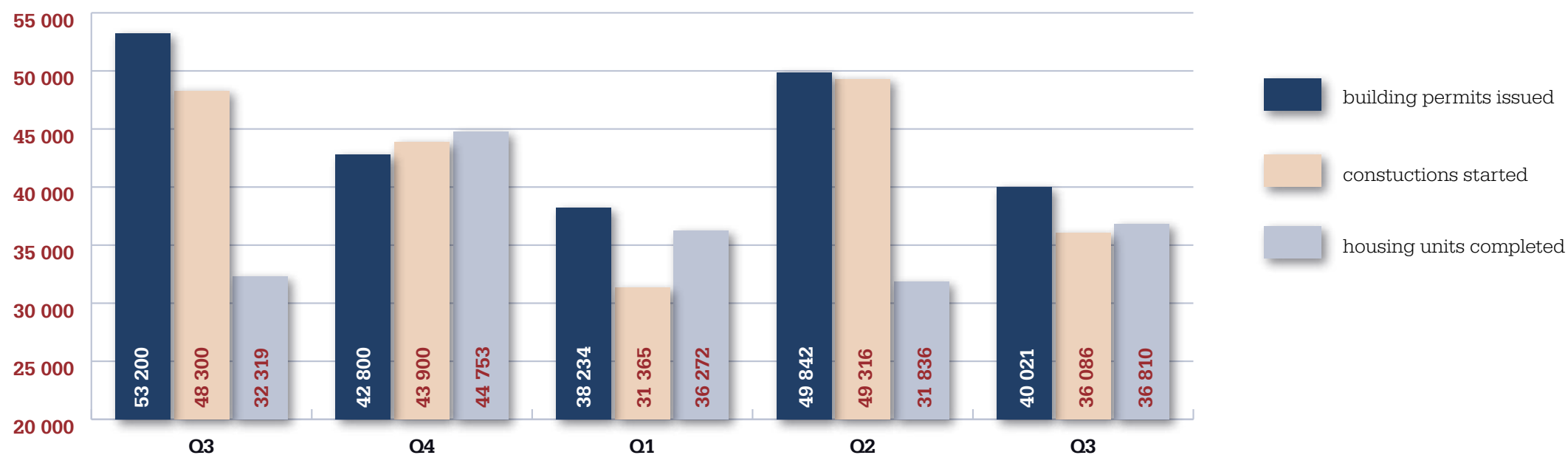
Source: Bank Gospodarstwa Krajowego

Situation on the housing market

In residential building sector, period from July to September 2012 brought an increase only in completed housing units segment. According to Central Statistical Office, **36 810** housing units were completed, which is **15%** more than in Q2 of this year and **14%** more in comparison with number of housing units completed in Q3 2011. In third quarter of 2012, construction of **36 086** housing units were

started, what represents a significant decline both in relation to Q2 2012 and Q3 2011 results, respectively by **26%** and **25%**. The number of housing units, for which construction permits were issued, also decreased and it amounted to **40 021** permits issued in Q3 2012, comparing to **49 842** permits issued in previous quarter. This number represents almost **25%** drop, comparing with the result of Q3 2011.

Chart 18. Number of building permits issued, constructions started and housing units completed in Q3 2011 – Q3 2012

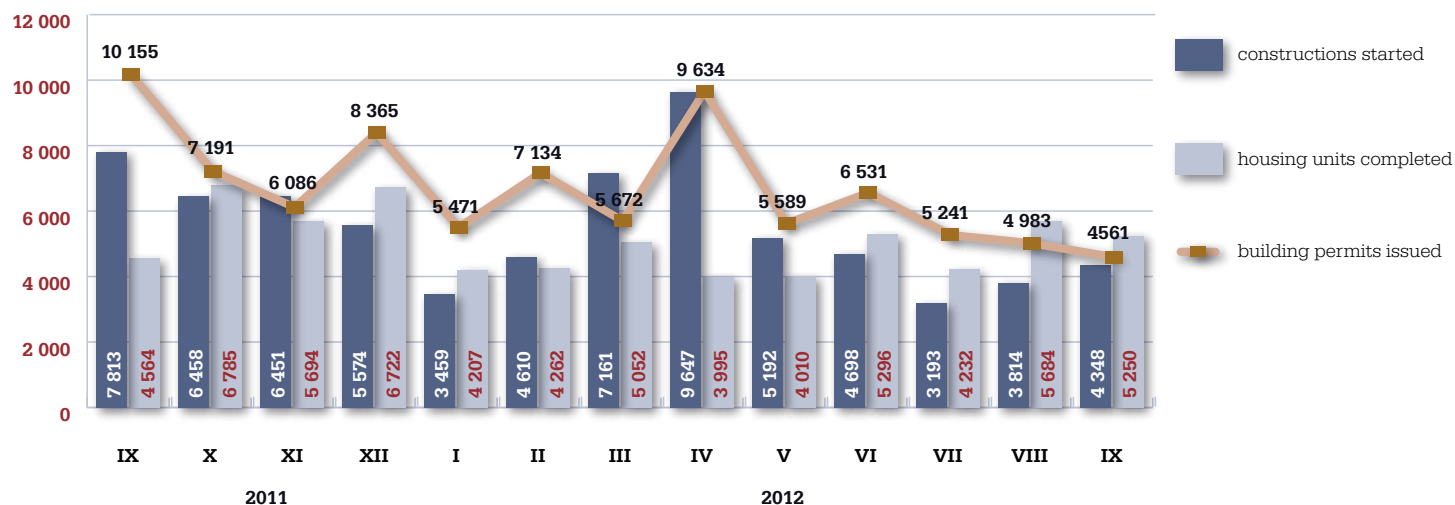


Source: Central Statistical Office

In Q3 2012 housing cooperatives sector started construction of **131** housing units (comparing with 775 in the Q2 2012), while the number of construction permits in this sector remained unchanged and it amounted to **521** permits. Number of housing units completed by housing cooperatives in Q3 2012 was lower by 11% in comparison with the second quarter (**876** completed housing units in Q3 2012). Third quarter of 2012 proved explicitly, how significant was the impact of new Act on protecting rights of housing unit or single family-house

purchasers (binding since April 29, 2012) on developers activity. After the new regulation became binding, the number of started constructions of new housing units decreased by **42%** (Q3/ Q2 2012). Comparing to the results of Q3 2011, the decrease equalled to **36%**. According to the Central Statistical Office, the number of issued construction permits diminished in Q3 2012 by **32%** in relation to the previous quarter. Comparing it with the analogical period of 2011, the decrease accounted for **40%** and represented over **10 thousand** housing units.

Chart 19. Number of building permits issued, constructions started and housing units completed by developers in September 2011 – September 2012



Source: Central Statistical Office

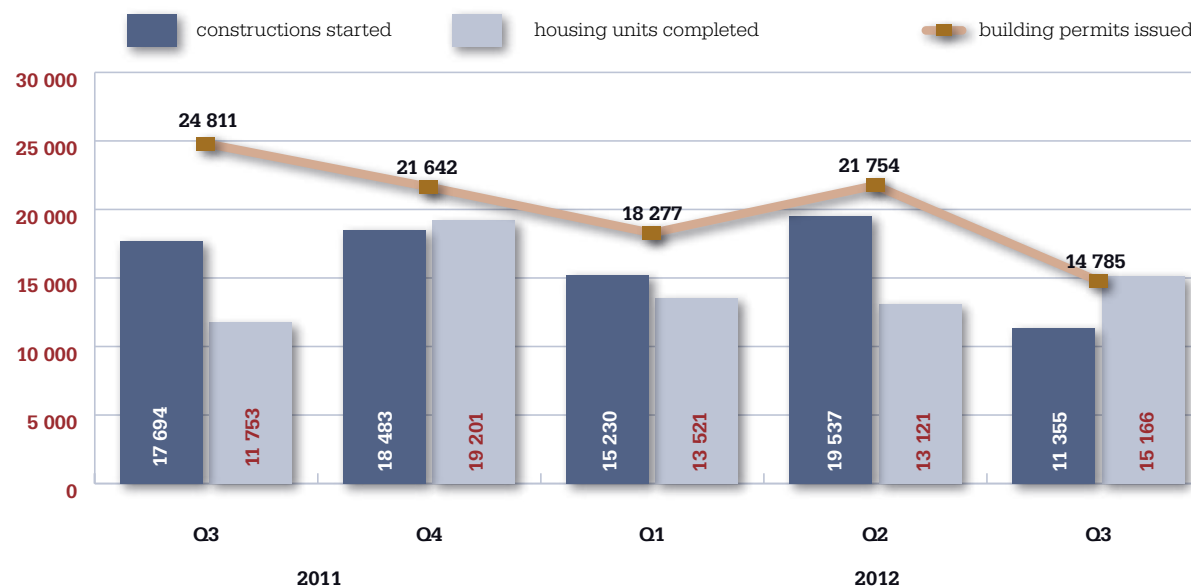
The only result that increased in Q3 2012 was the number of completed housing units – it amounted to the total number of **15 166**, what represents **15.5%** more than completed housing units in Q2 2012 and **29%** more in comparison with Q3 2011.

Table 11. Number of building permits issued, constructions started and housing units completed by developers in Q3 2011 – Q3 2012

	2011		2012		
	Q3	Q4	Q1	Q2	Q3
constructions permits	24 811	21 642	18 277	21 754	14 785
constructions started	17 694	18 483	15 230	19 537	11 355
housing units completed	11 753	19 201	13 521	13 301	15 166

Source: Central Statistical Office

Chart 20. Number of building permits issued, constructions started and housing units completed by developers in Q3 2011 – Q3 2012, quarterly



Source: Central Statistical Office

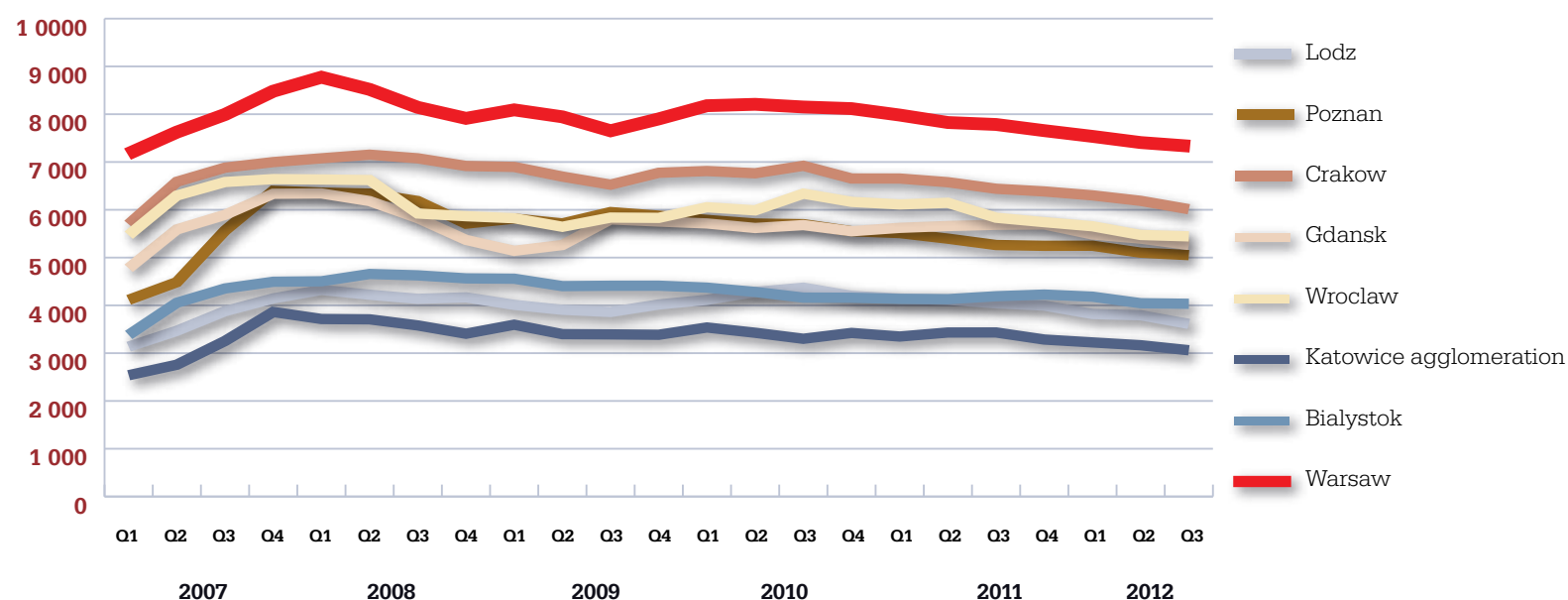
Average transaction prices of housing units

Third quarter of 2012 ended with subsequent decrease in the average prices on major markets in Poland. The most significant drop of **4.8%** was observed in Lodz, while the minor reduction of **0.3%** was noted in Bialystok. The average price in the capital city decreased to the level of **PLN 7 333 per sq.m.**, what represents a drop of **PLN 74** comparing to the prices noted in Q2 2012.

In relation to the analogical period of the previous year, the greatest drops were observed in Lodz and Katowice agglomeration, where the decrease accounted for over **10%**.

In the same period, the average price in Warsaw decreased by **PLN 452 per sq.m.**

Chart 21. Average transaction prices per square meter of a housing unit in selected cities in Q1 2007 – Q3 2012



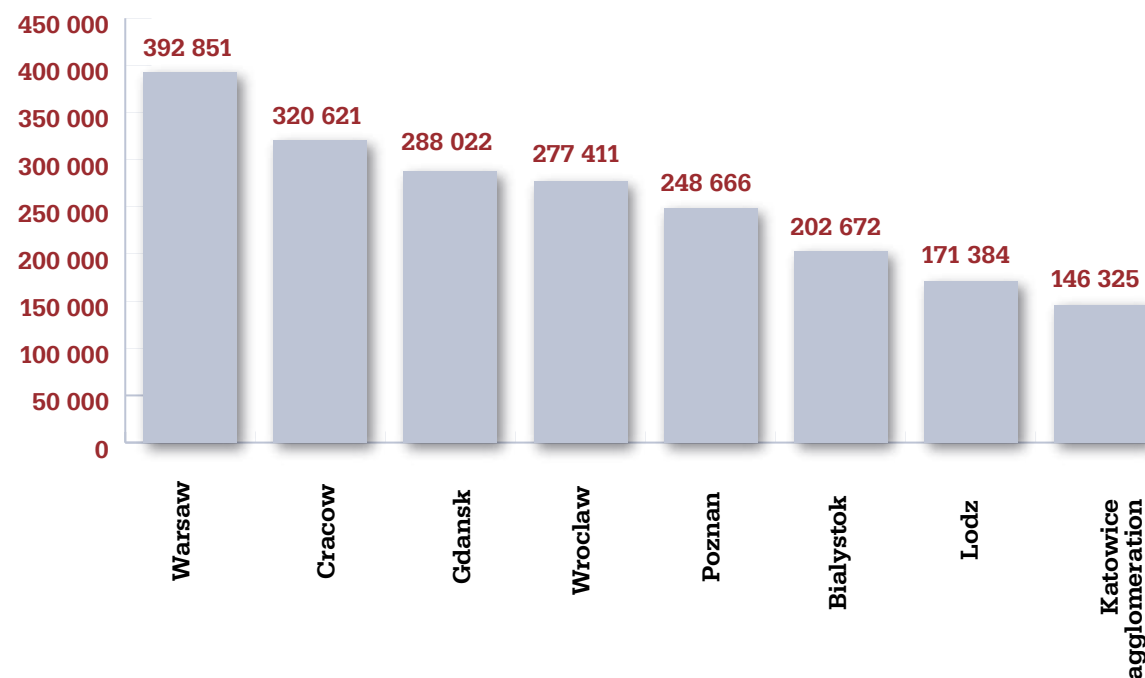
Source: AMRON

Table 12. Average transaction price per square meter of a housing unit in selected cities in Q1 2007 – Q3 2012

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

Source: AMRON

Chart 22. Total average transaction prices of housing units in selected cities in Q3 2012



Source: AMRON

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

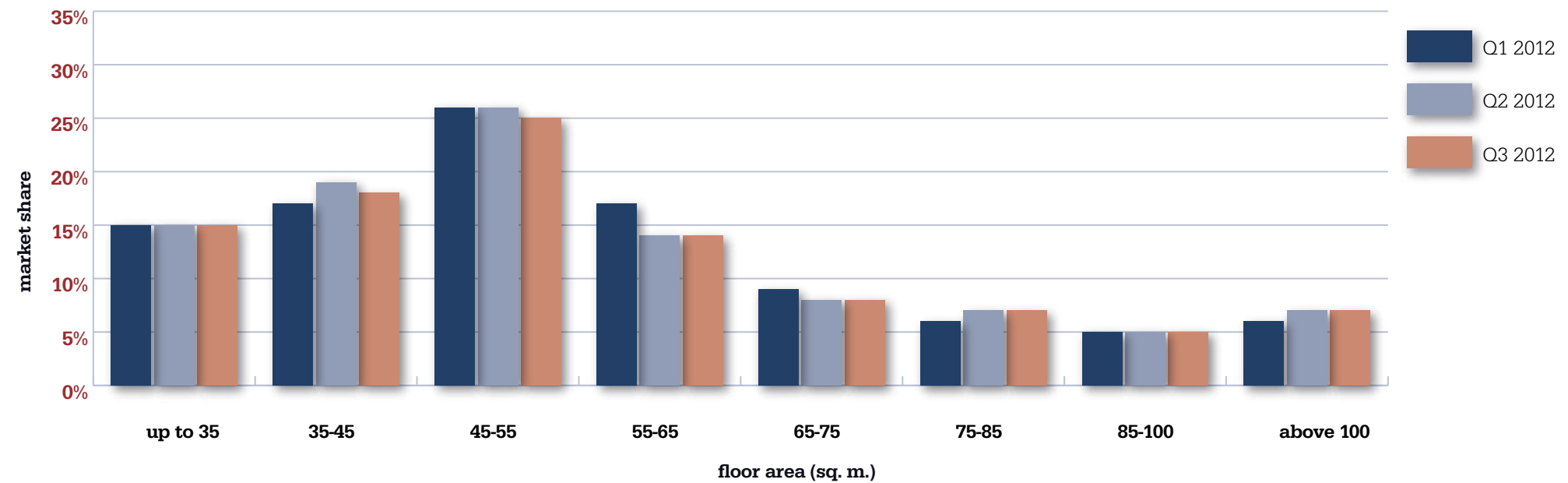
Table 13. Dynamics of changes in share of particular floor area segments in total turnover volume on housing markets in Warsaw in Q1 2012 – Q3 2012

floor area (sq. m.)	Q1 2012	Q2 2012	Q3 2012
up to 35	14.62%	15.02%	14.98%
35-45	17.49%	18.62%	18.13%
45-55	25.50%	25.56%	25.25%
55-65	16.76%	14.15%	14.48%
65-75	8.81%	7.74%	8.46%
75-85	6.01%	6.94%	6.50%
85-100	5.01%	5.27%	5.02%
above 100	5.81%	6.68%	7.18%

Source: AMRON

On Warsaw housing market, slight changes in share of particular floor area segments were recorded in Q3 2012. Share of the most popular dwellings of a floor area from 25 to 55 sq.m. decreased by **0.81%** and as for the end of Q3 2012 it constituted **43.38%** of the total turnover, when in previous quarter it was 44.19%. At the same time, the increase in share of housing units of a floor area from 55 to 75 sq.m. and above 100 sq.m. was recorded, respectively by **1.05** and **0.5 percentage points**. Share of the smallest dwellings of a floor area up to 35 sq.m. was at the same level as it was in previous quarter, i.e **14.98%**.

Chart 23. Share of particular floor area segments in total turnover volume on housing markets in Warsaw in Q1 2012 – Q3 2012

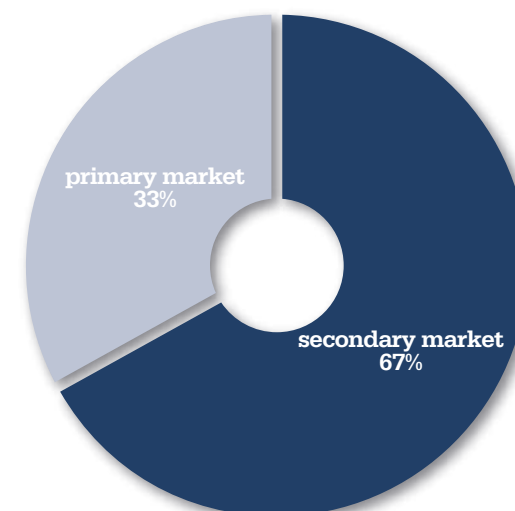


Source: AMRON

Turnover structure on Warsaw housing market in Q1 2012 – Q3 2012

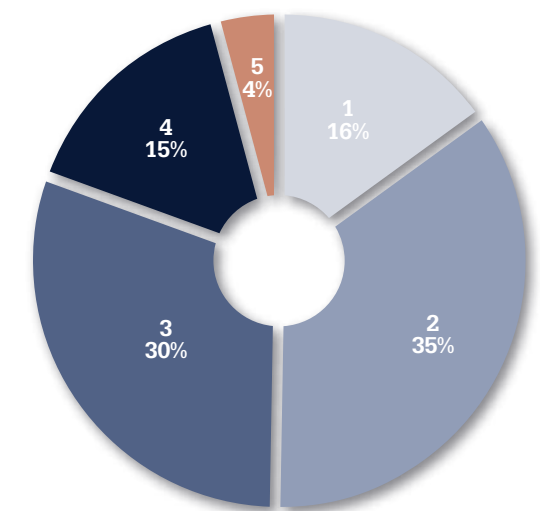
From January to September 2012, most of housing transactions in Warsaw were concluded on secondary market – share of secondary market in total number of concluded transactions was equal to **67%**. The most popular dwellings consisted of two rooms (35% of all transactions concluded in Warsaw in Q3 2012) and three rooms (30% of concluded transactions).

Chart 24. Turnover structure on Warsaw housing market – primary and secondary market in Q1 2012 – Q3 2012



Source: AMRON

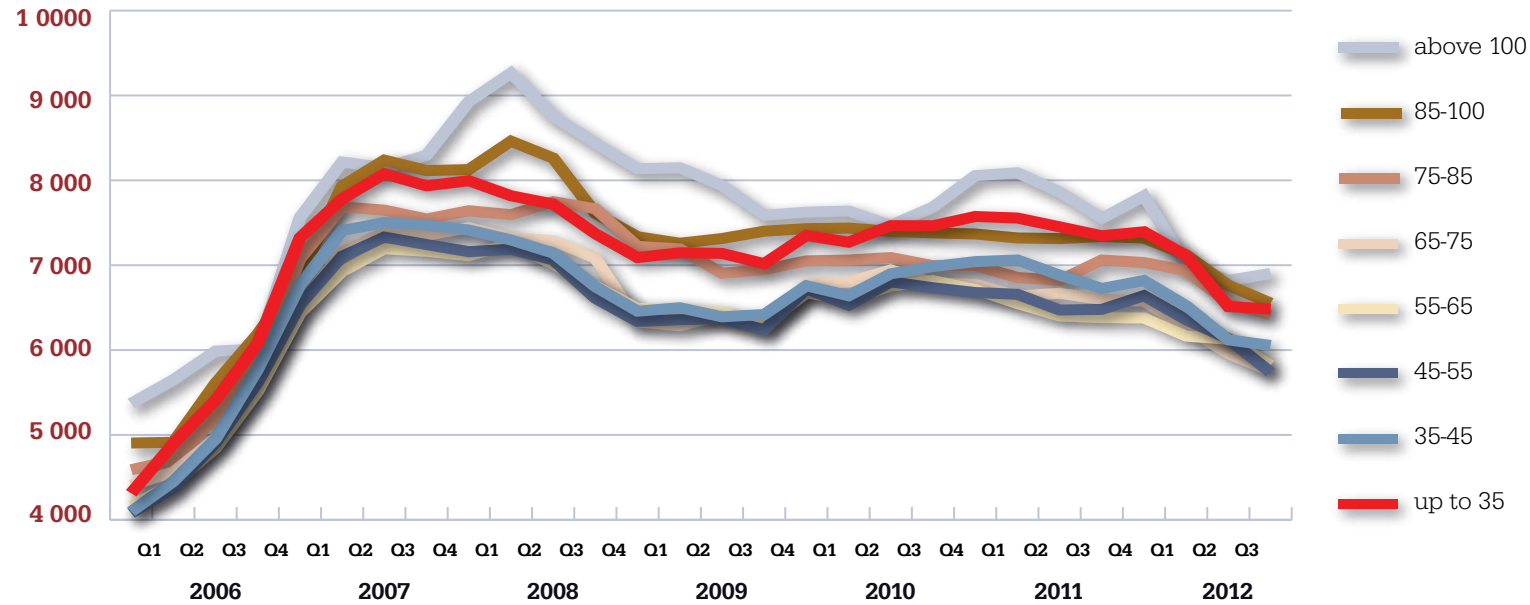
Chart 25. Turnover structure on Warsaw housing market in terms of number of rooms in Q1 2012 – Q3 2012



Source: AMRON

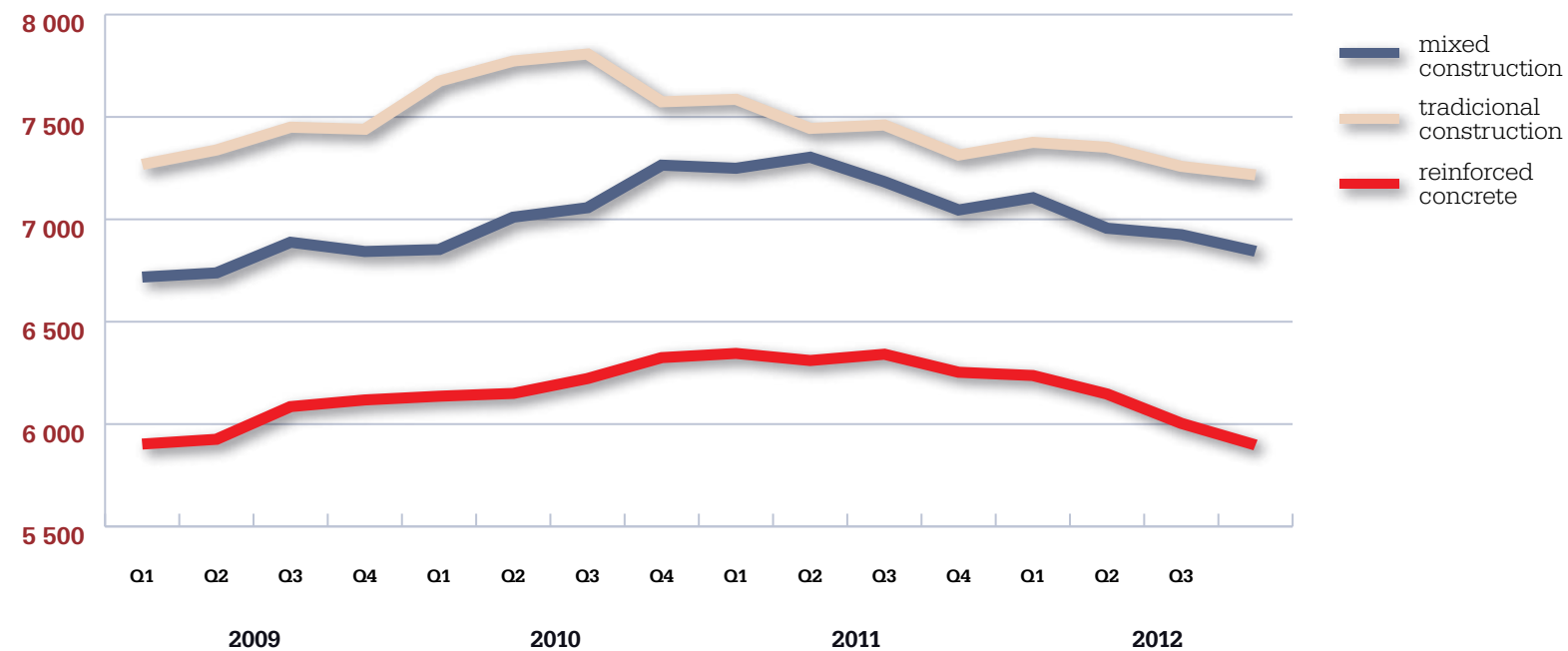
Average housing transaction prices in terms of floor area and construction technology

Chart 26. Average housing transaction prices in terms of floor area in six the biggest Polish cities (Warsaw, Cracow, Wroclaw, Poznan, Lodz, Gdansk) in Q1 2006 – Q3 2012



Source: AMRON

Chart 27. Average housing transaction prices in terms of construction technology in six the biggest Polish cities (Warsaw, Cracow, Wroclaw, Poznan, Lodz, Gdansk) in Q1 2009 – Q3 2012



Source: AMRON

Commentary to the Report

– Professor Jacek Łaszek, Warsaw School of Economics



Housing market observers, including regulators and authorities responsible for economic stability, can finally breathe a sigh of relief. The number of newly issued construction permits as well as constructions started finally begins to fall. We may hope then, that two-year surplus of new flats and building contracts results, to a greater extent, from the new Act on protecting rights of housing unit or single family-house purchasers, but not from a suicidal tendencies of Polish developers (building “on stock”, counting

on boom revival), causing bankruptcies and problems of banking sector. It is worth remembering that such a situation is one of consequences of speculation bubble, developed by CHF loans granted in 2004-2007 and we may assume that it is not the end of the problems. Except for that, everything is like in a course book: prices fall and probably will continue to fall, considering such a surplus.

Real estate markets, including residential, are related to the rest of the economy and therefore very complicated. Moreover, real estate markets, including residential, are very unstable – we may observe that regularly following economic fluctuations both in Poland and all around the world. In those circumstances, there is no reason to regret the weakening dynamics of mortgage lending. In a short perspective, mortgage loan is one of those products, which are very convenient for banking sector (one loan every 20-25 years), but also they are low-margined and in a long-term perspective cause significant risk increase for the whole sector. Residential sector in national economy environment, with highly politicized housing sector, domination of semi-state owned, specialized and strongly controlled bank system, was quite stable. Nowadays those times became a history. All sceptics, disbelieving how the residential sector works in free market and shocks environment, should study classics of economy science, on which my generation was educated (classic description of England or United States of America economies). Until now we in Poland have not regulated eviction procedures yet, risky denominated loans constitute 60% of mortgage portfolio and at the same time we would like to liberalize the conditions of mortgage

lending. This reminds me of an advertisement of some desperate car dealer – the car is ugly and consuming much fuel, yet it is expensive. According to the currently binding recommendations, the share of mortgage debt service in household earnings (Debt To Income ratio) cannot exceed 50%. According to Central Statistical Office research results, the so called fixed housing costs represent further 20%. It seems that the level of 70% of household budget spent for housing purposes in 30 year mortgage loan is quite liberal, unless we consider very high income. The number of such a households however is limited. Therefore we can be almost sure, that the liberalization of the requirements will not boost the demand, while it can certainly bring further deterioration of the mortgage portfolio quality. It may be naturally a contribution for the wider discussion about self-regulation of the financial sector, but at the moment it seems rather poorly, especially worldwide.

By the way, it is worth highlighting the comprehensive macroeconomic character of DTI ratio – it regulates the increase of loan portfolios in relation to the growth of earnings, which means, more or less, in relation to the growth of the whole economy. Abandoning it would mean carrying “manual” demand stimulation into effect. Now we came to another question – is the current demand level so dramatically low? In the year 2012, mortgage loans portfolio grew regularly by PLN 10 billion per quarter (that makes 40 billion per year and PLN 200 billion in next 5 years perspective, comparing to current total mortgage portfolio value at the level of PLN 313 billion), however the actual balance of mortgage debt actually did not change this year. Let’s put aside for now changes in mortgage debt balance resulting from exchange rates, loans structure and other factors typical for instability period that we enter at the moment, and let’s try to answer the question how to finance the growing expansion of mortgage loans portfolios, assuming that it causes the growth of the balances. Current yearly growth of deposits, which are probably the main financing source, amounts to PLN 50 billion per year. Considering actual minus interest rates of those deposits (including “Belka tax”) it is still much – Poles quickly learn economy in practice, especially with their own money. Such a situation means the atrophy of corporate loans, as well as consumer loans and shall force significant cost reductions (low margins on mortgage loans), most of all however it will transform the whole Polish banking system into specialized mortgage banking, safety of which will depend on that risky market. How about not hurrying too much with that?

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 testing and 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

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.

