Research
Poland | 2023

Residential Market in Poland

Q1 2023

Demand and sales

Q1 2023 brought a significant increase in the number of apartments sold in the primary market in Poland's largest cities. In the six main markets (Warsaw, Kraków, Wrocław, Tricity, Poznań and Łódź), developers sold over 11,400 residential units. This was an improvement of as much as 34% over the previous quarter (Q4 2022), which had already seen a rebound in sales. Most importantly, the number of residential units sold was also higher compared to last year's results (+9.7%).

The sentiment of market participants was much better. Cash buyers continued to be the most active among buyers. Admittedly, the prudential buffer for periodically fixed-rate loans, which is added to loan rates when calculating creditworthiness, was lowered in early February from 5% to 2.5%, but this did not have a key impact on sales levels in Q1.

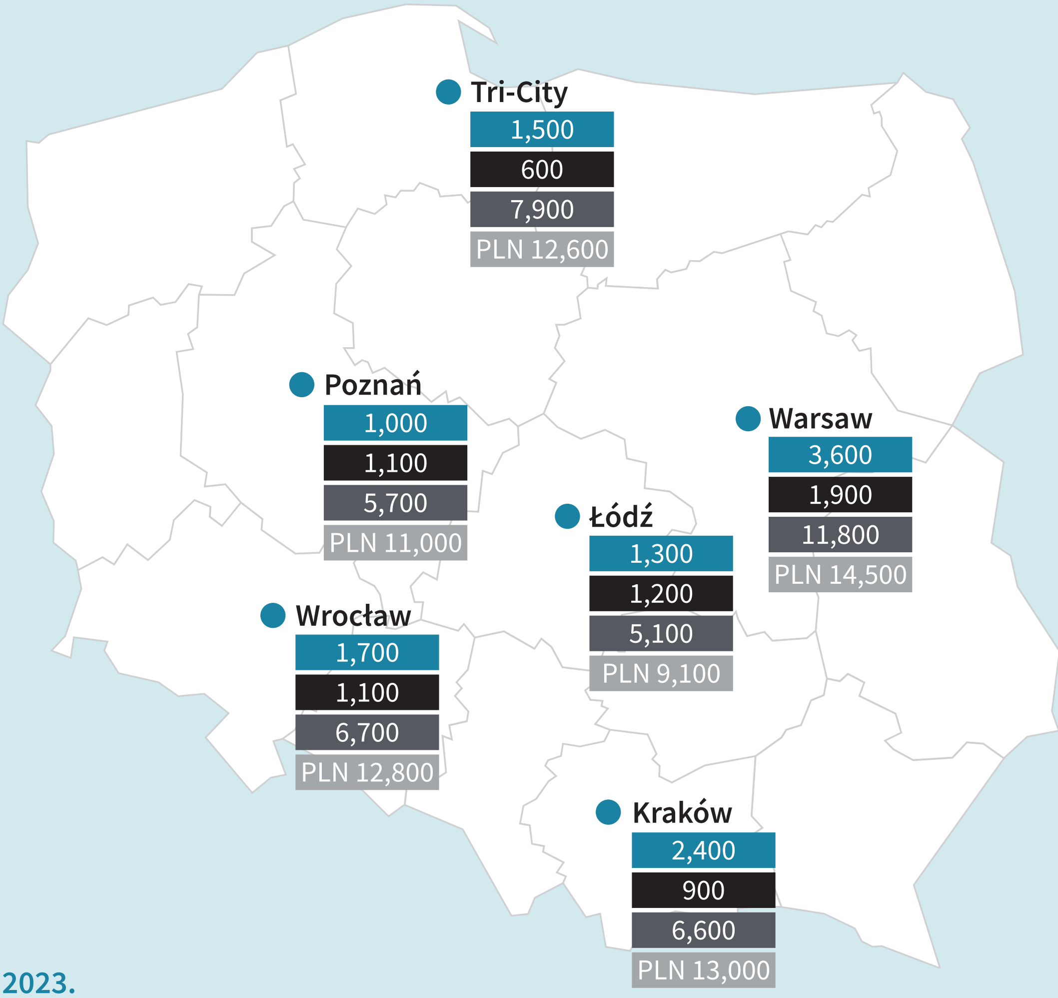
The market was most affected by fears of possible price increases and reduced offerings due to the announcement of an interest subsidy program to support first-time apartment purchases. Buyers looking for apartments both for their own needs and for investment purposes have therefore accelerated their purchasing decisions. The market was also influenced by indications of a possible regulatory limitation in the number of units purchased by one buyer during the year or restricted options to assign purchase agreements.

Buyers interested in taking advantage of the new program of subsidised loans in the second half of the year have already appeared in the sales offices. As with other buyers, the main motivation was the ability to secure the current price and benefit from the available offer. Most of the buyers in this group signed developer agreements. The number of long-term reservations, making the signing of a purchase agreement contingent on obtaining a subsidised loan, was, however, marginal.

New supply and offer

On the new supply side, we continue to see deceleration. The number of newly-listed units was as low as in the last two quarters of 2022, amounting to about 6,800 units in January-March 2023. The fewest new units have been built in the Tri-City and Kraków (under 1,000). In the other three markets (Wrocław, Poznań and Łódź), developers introduced between 1,100 and 1,200 apartments. In the case of Warsaw, the number was also exceptionally low - less than 2,000 units.

In most markets, the difference between the number of units sold and those put on offer was very pronounced. In the case of Warsaw, Krakow and Wroclaw, this has resulted in a significant shrinkage of the offer. In the capital city, customers had only about 12,000 residential units to choose from at the end of March, and in the other two cities – between 6,600 and 6,700. Developers have slowed down the start of sales of new projects, causing the total number of units offered



Total*

11,400

6,900

43,800

Legend:

No. of units sold in Q1 2023.

No. of units launched for sale in Q1 2023.

No. of units offered for sale at the end of Q1 2023.

Average price of unit on offer (PLN/m^2)

* aggregated data for the Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź.

in the six markets to drop to about 44,000 at the end of March.

The cases of returns, which were quite prominent in the previous two quarters and influenced the increase in the number of units on offer, had little impact in the past quarter.

The demand-supply relationship has definitely improved. The good sales performance coupled with a reduction in the number of new developments has resulted in an offer sell-out rate, calculated based on the results of Q1 2023[1] , of about 4 quarters, which means that the market of the six cities is close to equilibrium.

[1] Offer sell-out rate is calculated as the number of quarters needed to sell the current offer at the current quarter's sales rate and assuming no new developments go on sale.

Prices

It is worth noting that in the second half of last year, we saw a change in the structure of the new supply. Developers were launching much more expensive developments, some in the higher quality and price segment. This was in response to a drastic decline in credit driven demand. In most markets, the average quarterly prices of apartments for which sales have started reached record-breaking levels (in Warsaw and Kraków it was as high as PLN 16,000-17,000 per sqm).

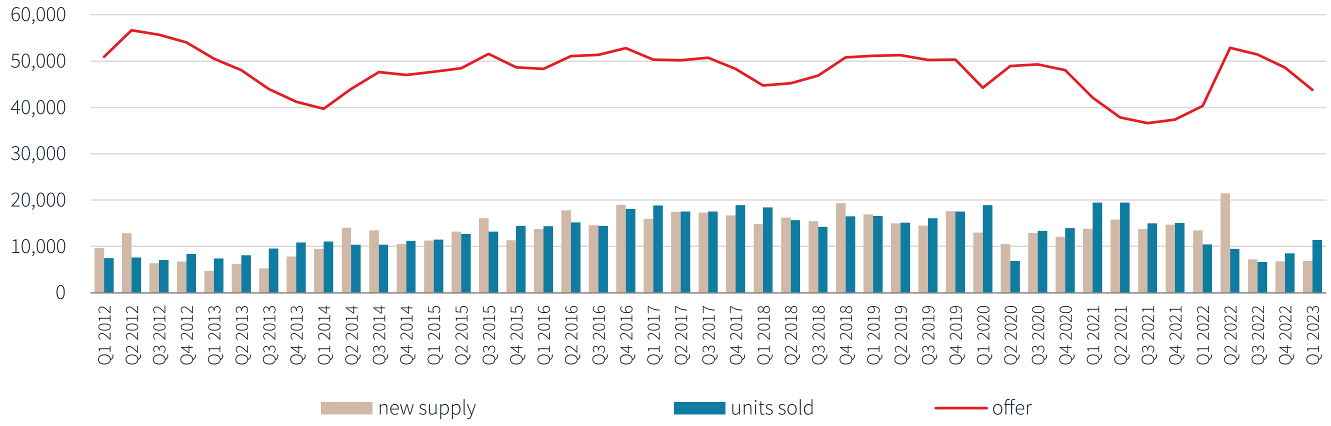
In Q1, the stronger impact came from announcements of the launch of a new residential program, which is tailored to first-time apartment buyers, and the amount of the loan, combined with a cap on the own contribution, limits the purchase price. This group of buyers will primarily be looking for small 1-3 room units of a basic standard so that the loan amount taken out is within the limit. Developers have returned to providing more units of a typical, basic standard. Units put on the market in the last three months were considerably cheaper than in the previous two quarters, but in year-on-year terms, there is still a significant increase in the price of new apartments.

For units that remained on offer at the end of March in most major markets, prices were higher by about 2-3% quarter-on-quarter. Only in Kraków, we observed a decline of more than 4% in the average offer price compared to the previous quarter. However, this was due to the withdrawal from the sale of a rather large pool of units, the prices of which were relatively high.

Promotions, discounts and other attractive offers, e.g. flexible payment schedules, which we saw in the last months of the previous year have disappeared from developers' advertising materials. Nowadays, the attention of companies is increasingly focused on those buyers who would like to take advantage of the new program and have the opportunity to book an apartment in advance with a price guarantee.

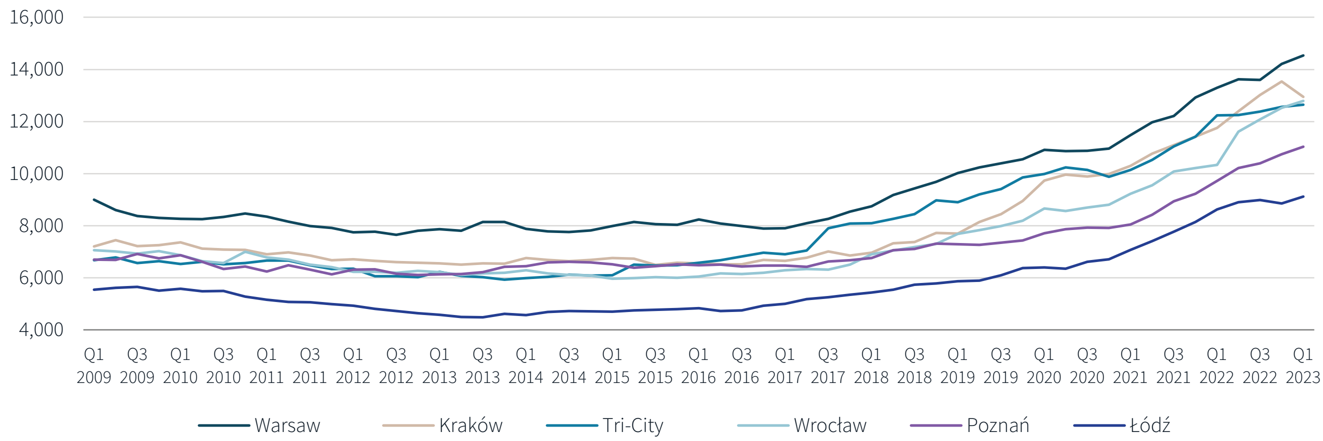
Residential units launched for sale and units sold quarterly vs. the volume of the offer

(aggregated data for Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź)



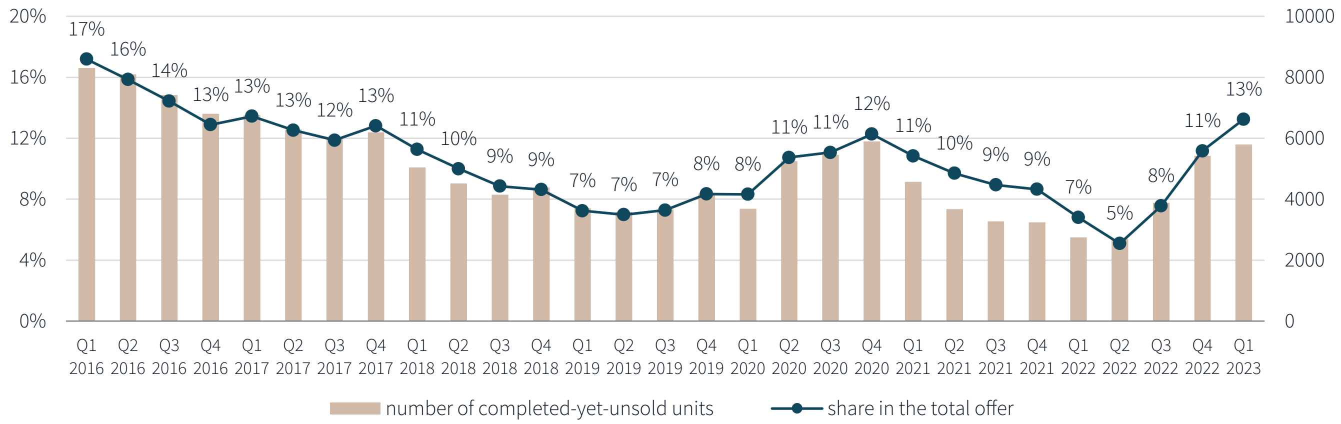
Average price of units on offer on the primary residential market

(PLN/m², incl. VAT, shell and core)



Completed units available for sale on the primary market

(aggregated data for Warsaw, Kraków, Wrocław, Tri-City, Poznań and Łódź)



Summary

After a year of turmoil due to the war in Ukraine, rising inflation, high rates and mortgage restrictions, optimism returned to the market in Q1 2023 and sales achieved a very good quarterly result.

Several factors in the market environment have had a positive impact on the sentiment of market participants. Thanks to the mild winter, there have been no major heating and energy problems in Poland, economic growth forecasts are slightly better than in previous months and the likelihood of inflation going below 10% by the end of this year is increasing.

However, a key factor that has already begun to boost demand is the announcement of an act allowing first-time apartment buyers to take out a loan with a fixed effective interest rate of close to 3% for the first ten years. Compared to the interest rate on fixed-rate loans for 5 years granted by banks to “ordinary” borrowers, which today is at around 8-9%, the “Safe Loan” offer is extremely attractive.

Most market participants expect a further increase in demand in the coming months related to both the new residential program and the acceleration of cash purchases. We can also expect a significant increase in supply, but also an increase in the prices of the most sought-after apartments.

Focus on **Kraków**

In Kraków in 2022, as in other markets, there has been a significant slowdown in the residential market. It is worth noting, however, that sales decrease the least (-42% y-o-y) among the largest six cities. The beginning of this year has been remarkably good for Kraków. Developers sold nearly 2,400 units in Q1, a result that was not only better compared to the previous quarter (+41.2%) but also better by more than 30% year-on-year. Similarly high levels of sales were recorded in Kraków in Q3 and Q4 of 2021.

Unlike sales, the volume of new supply in the last three months was the smallest since Q3 2013, at less than 900 units. A similar result was recorded in both the last and third quarters of the previous year. In total, over the past three quarters, developers have launched just 2,800 units, while, until the middle of the previous year, it was rather the result for a single quarter.

The continued clear advantage of the number of units sold over new ones brought the offering down to 6,600 units at the end of March. The inverted demand-supply relationship resulted in an offer sell-out rate (calculated based on the current quarter's result) of 2.8 quarters, indicating increased demand with simultaneous supply problems.

There are also very worrying signs in the Statistics Poland data on the number of constructions started. Since August of last year, the number of residential units that developers have started building in consecutive months has been extremely low. In the last six months (September-February), developers started construction of only 557 apartments in Kraków, compared to about 4,000-5,000 in the same period in previous years. The city also does not have a vast supply of permits that would allow for launching a lot of new developments quickly.

Prices of apartments on offer in Kraków have been increasing quite dynamically in the recent period - an average of 3-4% per quarter in 2021 and 2022. Q1 2023 brought a correction in the offer price. However, this was due to the launch of significantly "cheaper" units than in the previous quarter, and the suspended sales of a pool of extremely expensive apartments. At the end of March, the average offer price was PLN 12,900 per sqm.

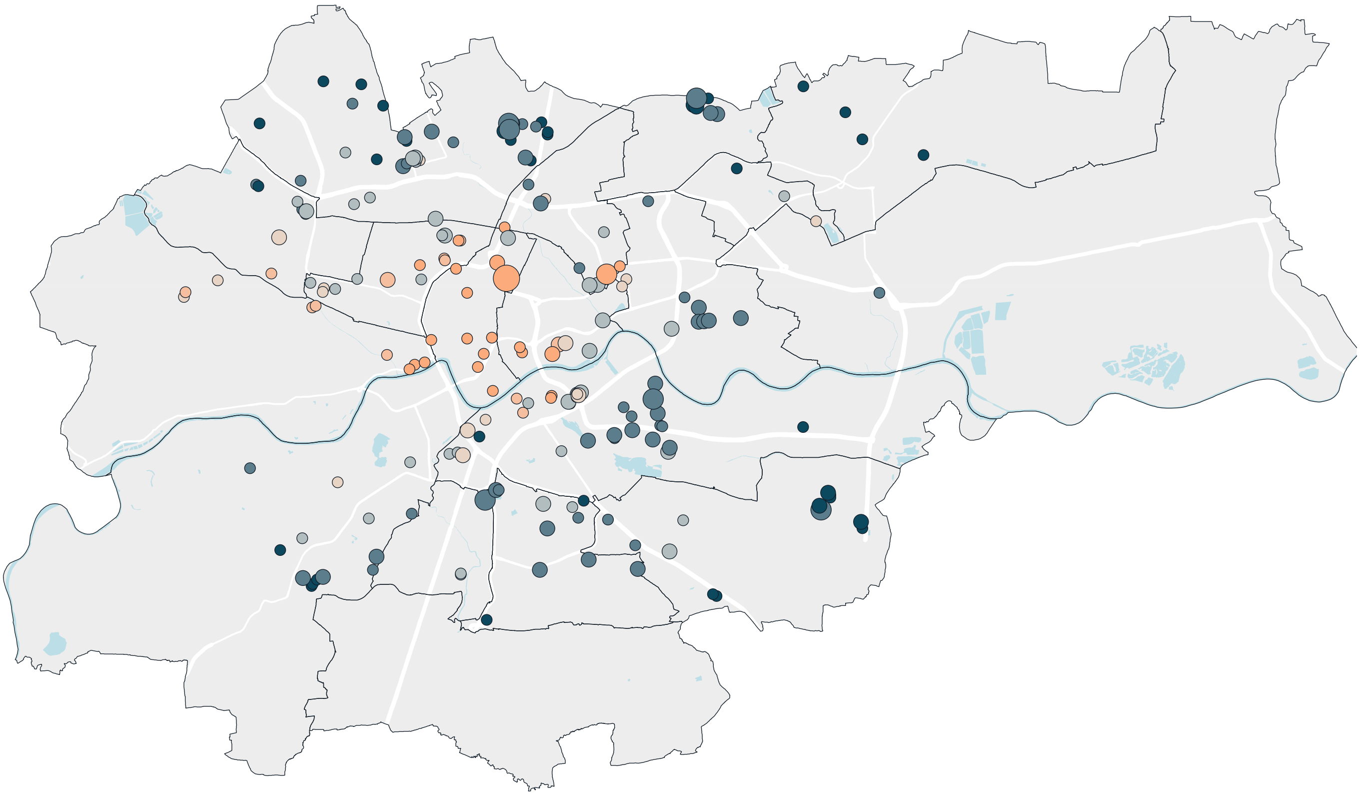
2400
number of units sold in Q1 2023

30% yoy
decrease in new units sold

-22% yoy
increase in the offer of new units

10% yoy
increase in average price of units available for sale

Residential projects offered in Kraków in Q1 2023



Number of units

- > 100
- 51 - 100
- 11 - 50
- 1 - 10

Average prices (PLN/sqm)

- > 18 000
- 16 000 - 18 000
- 14 000 - 16 000
- 12 000 - 14 000
- 10 000 - 12 000
- < 10 000

Expert's comment

In describing the processes currently taking place in the Polish residential market, one must start by noting that from 2020, or perhaps as early asmid-2019, another period of negative real interest rates has started. The onset of the pandemic brought strong destabilisation of the market, through the closure of sales offices, the decline of sentiment, but also the reduction of interest rates to unprecedentedly low levels. At the same time, various opportunities for consumer spending were blocked while money flowed to consumers in the form of aid allowances. In this situation, the cash outflow into the residential market in the second half of 2020 and especially in the first half of 2021 has also reached the scale of a destabilising factor for the market.

Another blow came in early 2022: inflation, war, refugees, and extreme uncertainty. April 2022 saw credit demand hit by a change in the rules for calculating creditworthiness, just when demand began to fall dramatically. Supply, in turn, was further destabilised in late June and early July by the response to the enactment of the Act on the Developer Guarantee Fund. Unpredictable demand, contractor problems, high financing costs and administrative problems sharply slowed the start of new constructions, but also limited the offer. The sense of uncertainty was strengthened by various announcements by government representatives, e.g. about cheap loans or about limiting purchases of apartments for rent or the fight against "patho-developers" [pl. patodeweloperzy]. As usual in emergencies, the government added fuel to the fire instead of pouring water on it.

At the beginning of Q1 2023, there was a market response to the announcement of "2% loans" for first-time apartment buyers and another wave of cash purchases. It is also a moment when the Polish Financial Supervision Authority withdrew its recommendations regarding the rules for calculating creditworthiness for loans with a periodically fixed rate. The effects of this decision will be probably seen in number of new loans in Q2 and later.

A roller-coaster is a motorway when compared to the sinusoid of operating conditions and sentiments that the Polish residential market has undergone in the last three years. In addition, it seems to have gone through this period in pretty good shape, although the time of uncertainty and dynamic changes in conditions for businesses is not over yet.

First of all, it is still difficult to estimate the impact of "2% loans" on demand in 2023. Estimates appearing in the press range from less than a thousand to tens of thousands of loan applications to be accepted in 2023. How does the announcement that there are no limits on accepting applications relate to the provision of the Act that their acceptance is to be halted once a fraction of the amount planned for subsidies for a given year is exceeded? Or how does it relate to information that subsidies to loans for which applications are to be accepted in 2023 will be paid from January from the 2024 limits? On what basis will the funds be divided between the primary market, secondary market and houses? Between banks and voivodeships? How will the creditworthiness of applicants actually be calculated?

With a lot of uncertainty and concerns that there may not be enough money for all interested, we will again most likely have a demand swing: buyers will rush to buy or reserve apartments in Q2, while we may have a fair number of buyers abandoning purchases at the end of the year or in early 2024.

The secondary market may become an additional destabiliser. This year, the construction of units purchased in 2021 for investment and flipping purposes will be completed. If there is a shortage of small units in the primary market and their prices go up, some owners of commissioned new units may conclude that it is better to take profits today.

In the background, the sentiments will be further impacted by announcements about further EU ideas to reduce the carbon footprint, whether through bans on fossil fuel heating or taxation of non-green concrete and non-green steel. In this situation, it seems sensible in the short term (several years) to move from an old building to a new one, although in the longer term, perhaps it is best to buy up old houses suitable for conversion after comprehensive modernisation into modern facilities that meet the requirements for near-zero-energy buildings. Emotions will be further heated-up by this year's election campaign. The question "Is apartment an entitlement or a commodity?" has already found its way onto the banners of some parties. Taking all this into account, at the beginning of Q2, one thing can be said with certainty about the near future: the roller-coaster ride is not over for market participants.

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