

Residential property market report

Summary of H1 2019



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Economy and banking sector¹

Smooth deceleration of the Polish economy

In the first half of the year, Poland's GDP increased by around 4.6-4.7% YoY (at the time of writing this commentary, the Bank only has its own estimates of GDP growth in Q2), which means only a slight slowdown in relation to the end of the previous year (4.9% YoY in Q4 2018). Poland has continued to show significant resistance to external factors and in economic performance it is not easy to find the effects of the slowdown in the euro zone lasting since the beginning of 2018.

Private consumption, which increased by around 4% YoY remained the main driver of growth in H1. The causes of the increase in consumption have not changed since several quarters – the rapid increase in consumption demand is driven by a high increase in consumer income, the second-order effects on the real property market and the good situation on the labour market (record low unemployment rate). In addition, the moods of consumers, after a transitional decline at the turn of the year, have increased again in recent months and, according to some indicators, are the highest in history. In the second half of the year, the effects of a new stimulus package, including reductions in taxes on personal income and increased social benefits, will take full effect. In addition, it is important to mention here that in the H1 public consumption was characterised by a relatively high contribution to GDP growth, which should be linked, inter alia, with wage increases in the budgetary sphere.

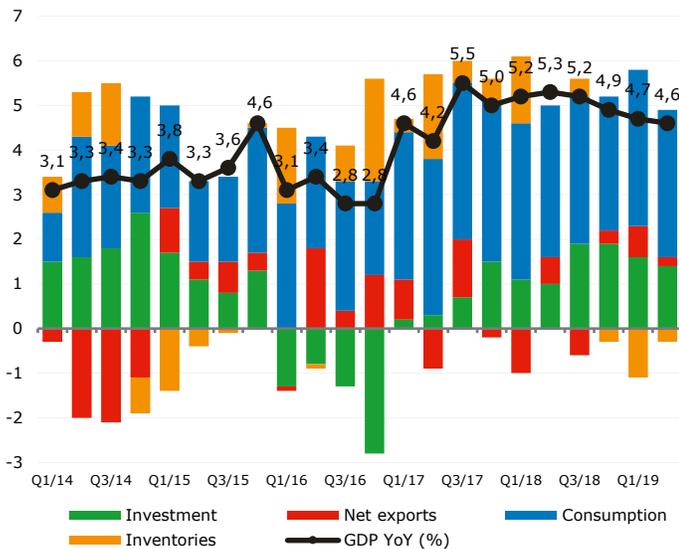
The first half of the year was the period of increase in investment demand – total gross fixed capital formation increased by more than 10% and this was the best investment period since 2015. The analysis of the structure of capital expense, both from the sectoral and generic side, clearly indicates that the decisive factor in the surprising acceleration of investments was the activity of private enterprises,

in particular, enterprises with a predominance of foreign capital. In other segments, existing trends were continued – a small but positive contribution by private domestic enterprises and a slowdown in public investment. This second factor should be linked to the maturing EU investment cycle and fading of the factors stimulating investments in the preceding year (municipal elections). In the background, there is high activity in the residential property market.

A positive surprise in recent months has been the behaviour of Polish exports. Despite a clear slowdown in the global economy and the worst economic crisis in the European industry since 2012, exports of goods and services increased by 8.8% YoY in the first five months of the year. The reasons for such a result should be seen in the competitive cost of Polish goods and services, structural changes (significant increase in the role of services), a sound geographical diversification and (perhaps it is the most important factor) relatively significant role of consumer goods in Polish exports – the consumer demand has been to the smallest extent affected by slowdown in the global economy. With the decreasing dynamics of imports in the above-mentioned period to 6.1% YoY, this means that the net exports in the first half of the year were characterised by a positive contribution to economic growth.

¹ Prepared by: mBank

Polish GDP over the years



Source: mBank

CPI inflation and NBP reference rate

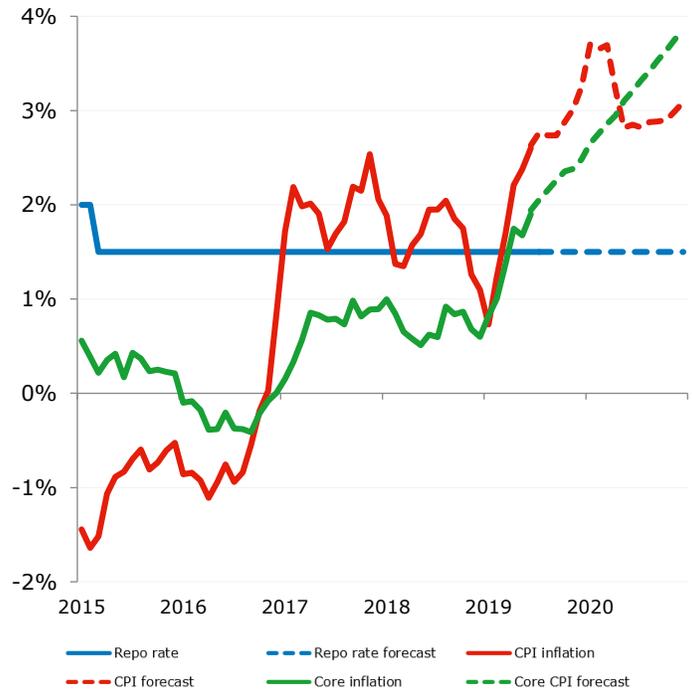
The first half of the year was a period of dynamic growth in inflation, although its scale does not fully reflect the attention paid to growing prices by media. The annual pace of growth in consumer prices and services increased from 0.7% YoY in January to 2.6% YoY in June and, with the exception of January and May, in each month arouse a positive surprise.

In this period, the CPI was influenced by several factors. Firstly, as from the beginning of the year a law freezing electricity prices for households entered into force, which (due to the cut of excise duty on electricity and the interim levy and the lack of a decision of the Energy Regulatory Office as regards the price of electricity itself) translated into a fall in electricity prices by about 9% in January. The prices of other energy carriers (liquid fuels) moderately increased in the first months of the year, reflecting the earlier increases in oil prices. Secondly, food prices rose sharply (only in June the dynamics exceeded 6% YoY), especially of vegetables, meat, flour and bread. The combination of weather factors (drought), external factors (ASF epidemic in China) and cost factors (labour costs in the case of processed food) contributed to this price increase. Thirdly, the first half of the year was a period of clear and systematic increase in core inflation. It was mainly

driven by more and more expensive services and core inflation reached the highest level since 2012. It is worth emphasising that if not this measure related to electricity prices, inflation would exceed 3%.

In the face of inflation increase, the Monetary Policy Council (RPP) has once again proven untouched. The reasons for accelerating the inflationary processes were defined as external and independent from the central bank's activities, and the increases themselves – as temporary and relatively small. Such a stance of the RPP was supported by projections of the National Bank of Poland, consistently showing lower economic growth in the future and returning inflation to the target lever over a period of two years, without the intervention of the RPP. As a result, the current interest rate stabilisation policy has been established. According to the current declarations by the President of the National Bank of Poland, interest rates are to remain unchanged until the end of the current Council's term of office, i.e. until the end of 2021.

Main economic indicators of the Polish economy

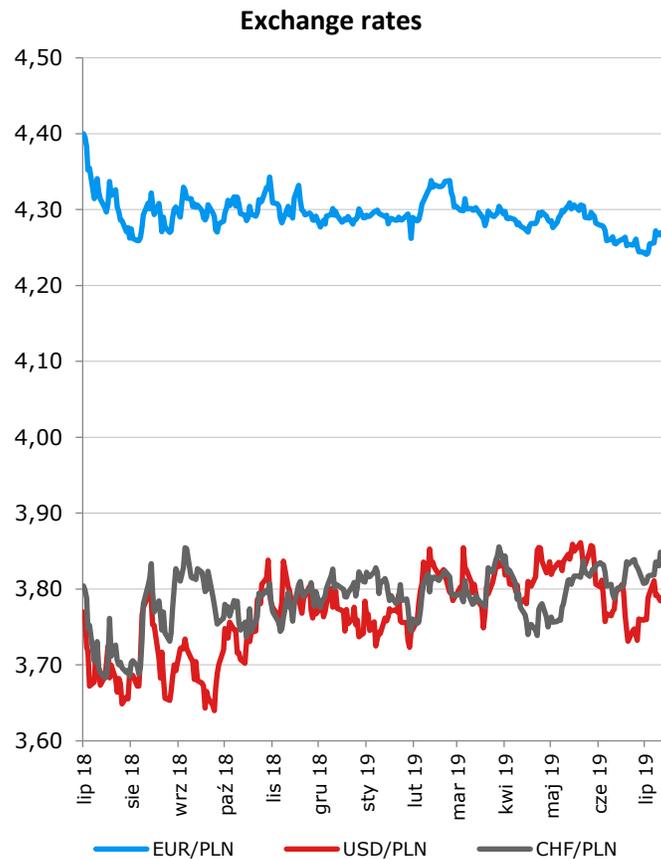


Source: mBank

Exchange rates

The first half of the year was marked by the appreciation of the Polish zloty and the fall in market interest rates, but in the Bank's opinion this was the result of the impact of global factors. The prevailing trends in the foreign exchange market and in global interest rate markets were: an increase in the level of pessimism as regards the prospects of the global economy and the development of monetary stimulation expectations on the part of the main central banks. This coincided with a deterioration of the macroeconomic data from the global economy and with such events as the collapse of the US-China trade talks, the threat of the imposition of duties on all imports from Mexico to the United States, postponing of the Brexit date in the last minute, the increased tension in the Middle East and the elections to the European Parliament. In this period, the Polish zloty strengthened in relation to the euro from 4.30 to 4.24 (half-annual range of fluctuations is 4.24-4.34), however against the dollar it remained stable around 3.80 (fluctuations between 3.71 and 3.86). At the same time, this indicates the low volatility of the exchange rate, which in turn reflects the high sustainability of the Polish economy.

In this period, the profitability of Polish Traded Securities decreased and this affected mainly medium and long-term bonds. In the case of securities with a maturity of 10 years, this decrease was over 50 bp. A flattening of the yield curve observed in the first half of the year entailed an increase in the pessimism of market participants and the expectations as regards a fall in interest rates in the world. National factors came into view only for a short time, after the announcement of fiscal stimulation plans.



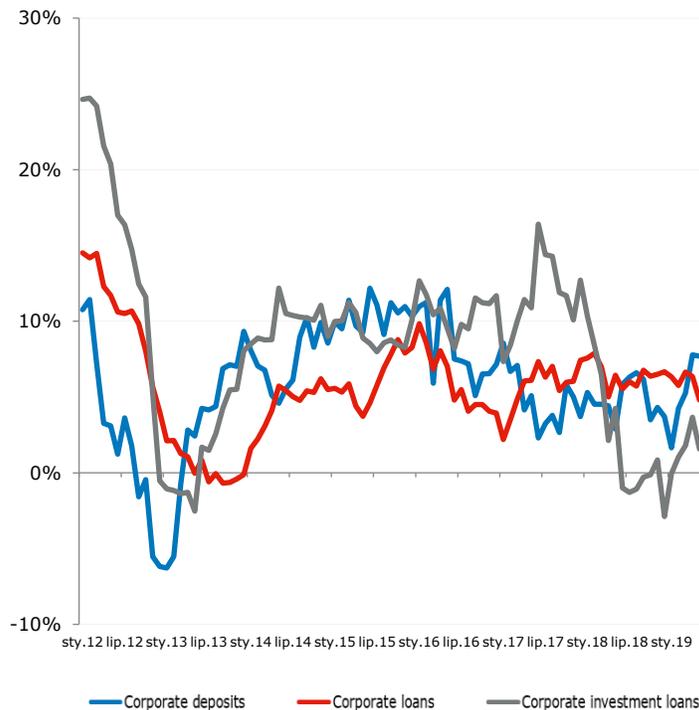
Source: mBank

Deposits and loans

The first half of 2019 was marked by further falls of the loan-to-deposit ratio in the banking sector – despite some acceleration of the lending activity, the rate of increase in the deposit base still remained above the increase in loans.

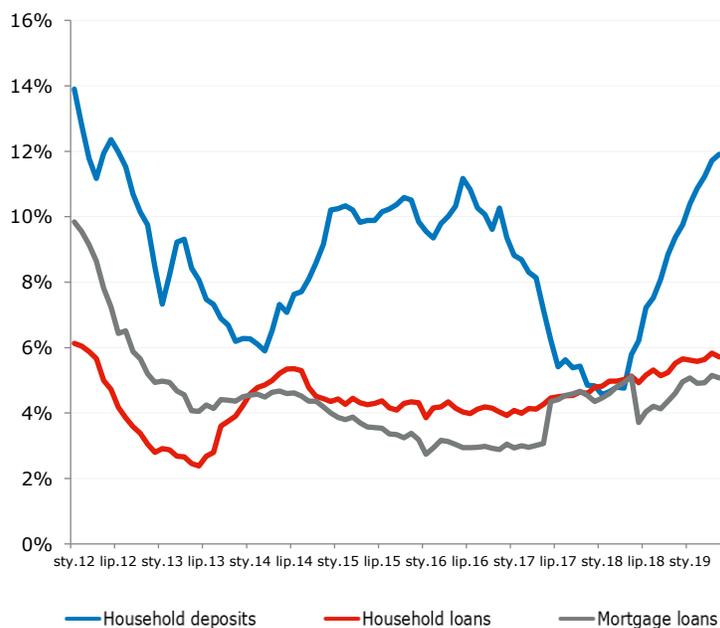
In the retail segment, the most important events were: continuation of the dynamic growth of household deposits (in May of the current year the pace of growth was around 12% – the highest since 2012) and maintenance of high values of newly disbursed loans for real property. The first of these factors should be linked to a high increase in household income and to maintaining outflows from alternative forms of capital investment (investment funds and financial asset markets). The latter is a consequence of a recovery in the residential property market and it was not affected by the inhibition of sales on the primary market (which was compensated by a simultaneous increase in the secondary market). In the corporate segment, a significant slowdown in corporate loans was accompanied by an increase in the value of deposits.

Deposits and corporate loans



Source: mBank

Household deposits and loans

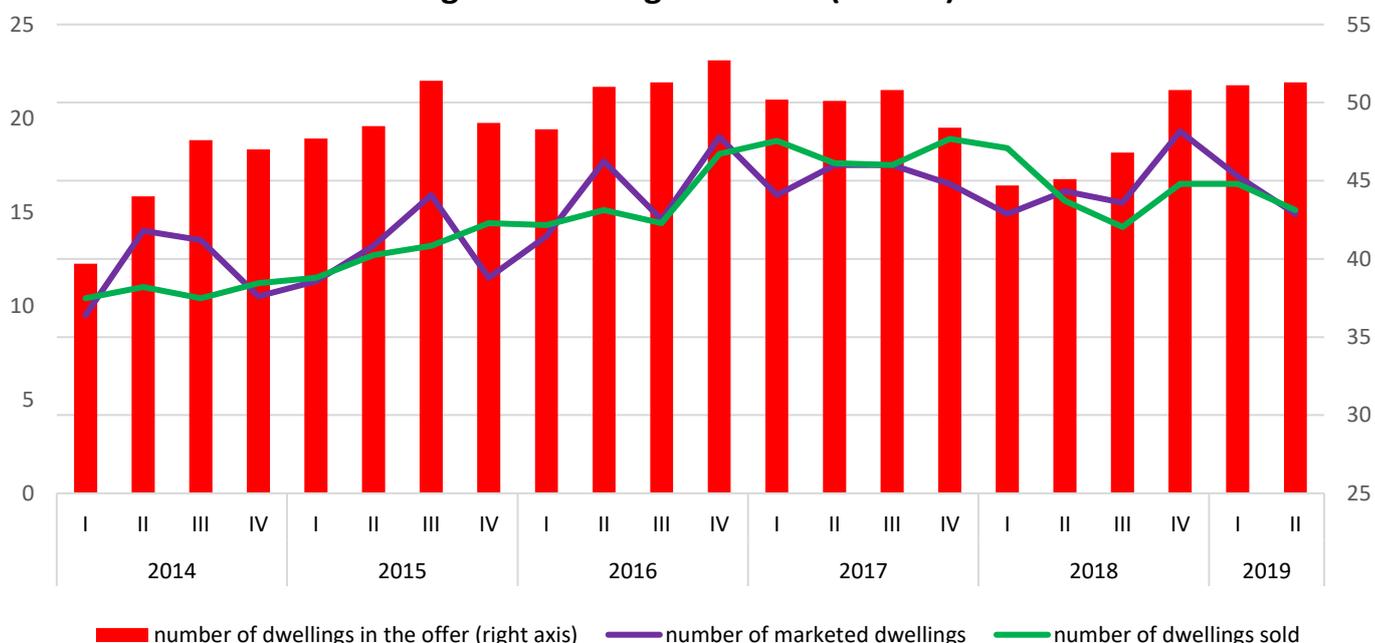


Source: mBank

Residential property market

Stabilisation in the primary residential property market²

Changes in housing resources (in '000)



Source: REAS, prepared by mBank Hipoteczny SA

Summary of H1 2019

Number of flats in Poland:	in thous ands	change H1 2019/H1 2018
commissioned for use;	94.7	↑ 14.4%
for which a construction permit was issued;	129.5	▼ 1.8%
whose construction has commenced;	115.4	↑ 1.5%
Number of dwellings in the analysed, primary housing markets ³ :	in thous ands	change YoY
introduced to the offer	31.8	↑ 2.6%
sold from the offer	31.6	▼ 7.0%
included in the offer	51.3	↑ 13.7%

- The first half of 2019 showed a slow stabilisation in the residential property market, both on the demand and supply side.
- The beginning of the year in the development sector brought an apparent decrease in the sales of flats, but the supply of flats should be maintained at a similar level as in previous years.
- Prices of residential property continue to grow, in H1 2019 they increased by almost 8% on average.
- Average rents for flats in different locations will continue to grow, like in 2018.
- Increasing the number of affordable flats available on the market in the framework of the government programme "Mieszkanie Plus" (Flat Plus).
- The results of the past half-year lending activity in terms of value were the best since 2007 and amounted to PLN 30.0 billion.

² The analysis was based on 6 cities: Warsaw, Krakow, Gdansk, Wroclaw, Lodz, Poznan, with the largest market share.

³ as above

Loan agreements

In H1 2019, the situation on the residential property market was slowly becoming stable. Supply was at a similar level in relation to demand. Factors that influenced the housing demand included: low interest rates, low margins, good situation in the labour market, increased income of households, as well as the economic growth rate exceeding the level of 4%. The most important change noted in this period in the economy was a clear acceleration of inflation at the level exceeding 2%.

Due to inter alia the above factors, the lending activity in H1 2019 increased. Banks signed more than 109.9 agreements with a total value of approx. PLN 30.0 billion. For comparison, in 2018, the number of newly granted loans amounted to approx. 212.6 thousand and the value of loans was PLN 53.8 billion.

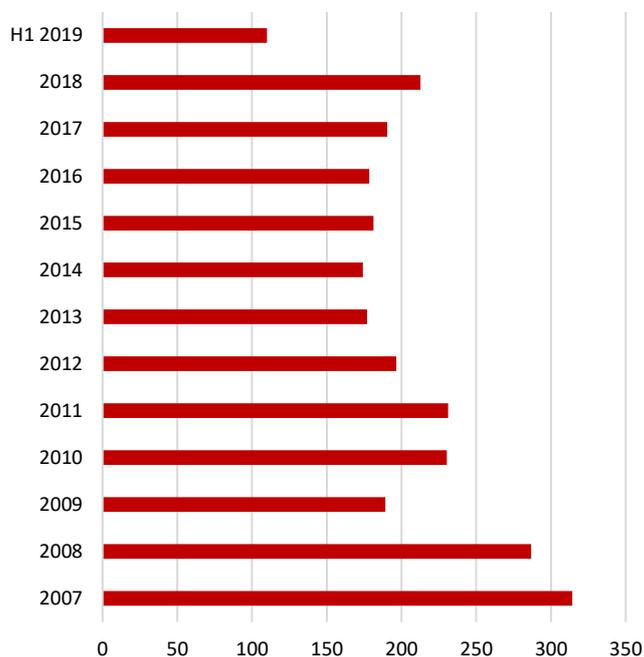
This means that the results of the past half-year lending activity in terms of value were the best since 2007, exceeding PLN 30.0 billion in aggregate. For comparison, so far, the best result for the first two quarters was reached in 2007 (with the value of newly signed agreements exceeding PLN 27.96 billion). The number of newly signed agreements in H1 2019 is so far the fifth result in history (in this respect the best was H1 2007 with the number of newly signed agreements exceeding 159.95 thousand).

The following factors, inter alia, continued to stimulate the lending activity: disbursements from the 500+ programme, favourable lending conditions and maintenance of interest rates at the level of 1.5% (consistently since March 2015).

At the end of H1 2019, the total amount of debt on account of housing loans exceeded PLN 415 billion (↑ 2.7% as compared to the value at the end of 2018). The average value of the loan granted in Poland increased, as compared to the end of 2018 (PLN 253.5 thousand), by about 9% to the value exceeding PLN 276.6 thousand at the end of H1 2019.

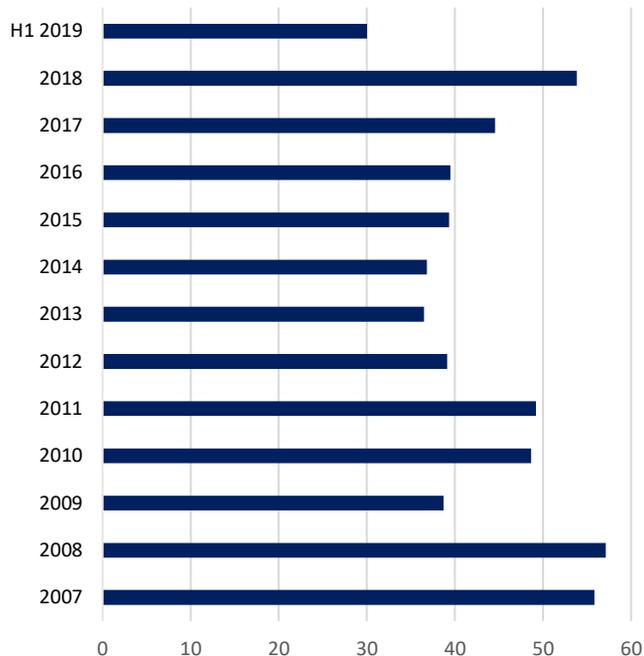
The structure of the loans granted remains the highest in the largest Polish cities, i.e. Warsaw, Wrocław, Poznań, Tricity and Kraków.

Number of newly signed housing loan agreements (in thousands)



Source: Amron SARFiN, prepared by: mBank Hipoteczny SA

Value of newly signed loan agreements (PLN billion)



Source: Amron SARFiN, prepared by: mBank Hipoteczny SA

Real property potential in Poland compared to other European countries

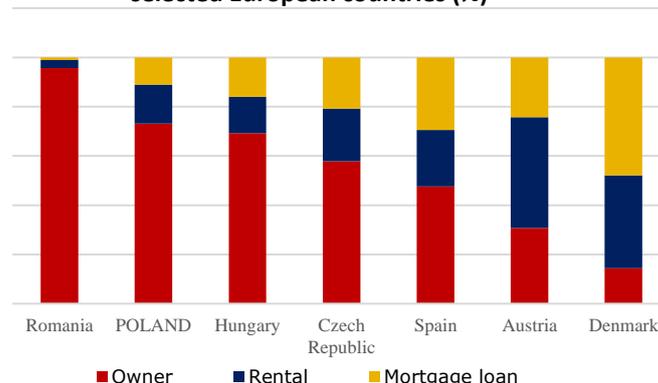
Looking at the ownership structure of residential property in selected European countries, we note that the penetration of mortgage loans in Poland remains low and the residential property ownership rates are one of the highest in Europe. A higher rate than in Poland (about 73%) was recorded in Romania (a concentration of around 95%). In highly-developed countries the rates reach significantly lower levels, i.e. in Austria (31%) or in Denmark (15%), where the flat rental rates and the rates of flats purchased with a loan are high in turn. In Austria, flats for rent represent around 45%, in contrast, in Denmark the highest rate concerns real property purchased with a loan (about 48%).

The structure and quality of housing resources are considered as one of the indicators of the quality of life and the development level of the country concerned.

According to the data presented, the highest rate converted by number of flats per 1,000 inhabitants was observed in Portugal (580) and Italy (579). The average for the countries covered by the analysis is 480 flats per 1,000 inhabitants. In this report Poland is clearly below the European average, with this rate being only 381.

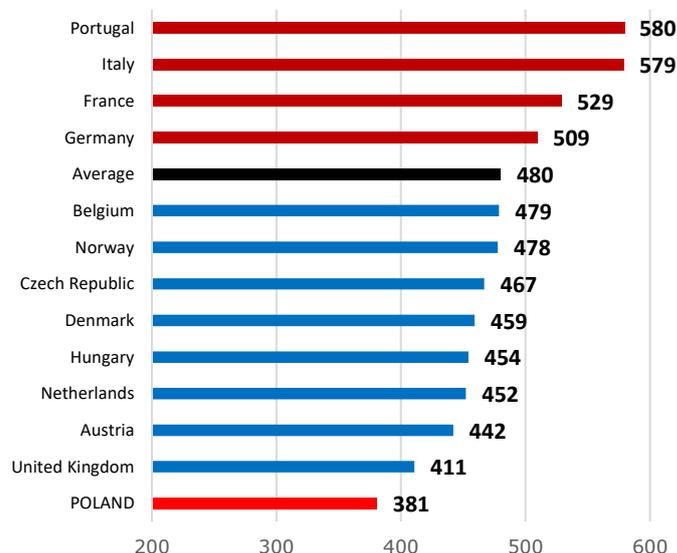
In confrontation with the data presenting the overpopulation rate⁴ in the selected European countries, this confirms that the number of flats in Poland is still insufficient (despite large quantities of marketed flats and issued construction permits). The overpopulation rate in Poland, like in Hungary, is the highest and is around 40%. For comparison, the average overpopulation rate in the EU is around 17%, the lowest is in Belgium (around 3%), Spain (around 4%) and in Great Britain (around 5%).

Ownership structure of real property in selected European countries (%)



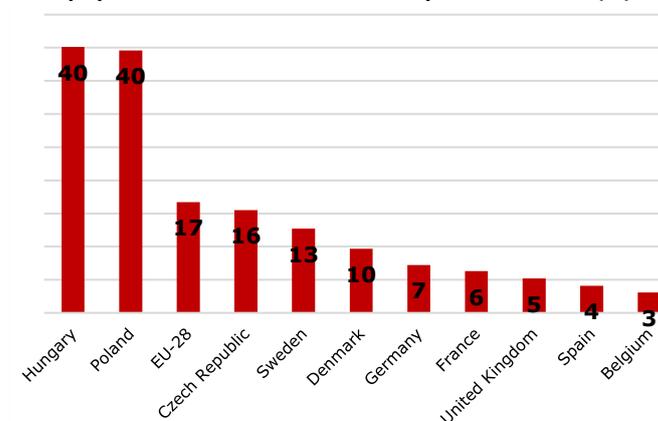
Source: Eurostat

Number of flats per 1000 inhabitants



Source: Deloitte-Property index 2019

Overpopulation rate in selected European countries (%)



Source: Eurostat

⁴ The overpopulation rate – is the percentage of people living in a overcrowded flat, determined by the number of rooms in a household, household size, age of household members, and their situation

Residential construction in Poland

The analysis of residential construction indicators in H1 2019 showed an increasing trend in two parameters and one at a slightly decreasing level. According to the data of the Central Statistical Office (GUS), the number of flats commissioned for use increased by about 14.1%, the number of flats, whose construction has commenced by about 1.5% and the number of flats, for which a construction permit was issued decreased by about 2.4% in relation to H1 2018.

The number of flats, whose construction has commenced in H1 2019 amounted to almost 115.4 thousand. The highest YoY increase occurred in the voivodships: Lubuskie (↑46.9%) and Łódzkie (↑45.4%).

The decrease was recorded in five voivodships, i.e.: Świętokrzyskie (↓23.8%), Mazowieckie (↓22.5%), Zachodniopomorskie (↓22.8%), Śląskie (↓10.8%) and Małopolskie (↓7.3%).

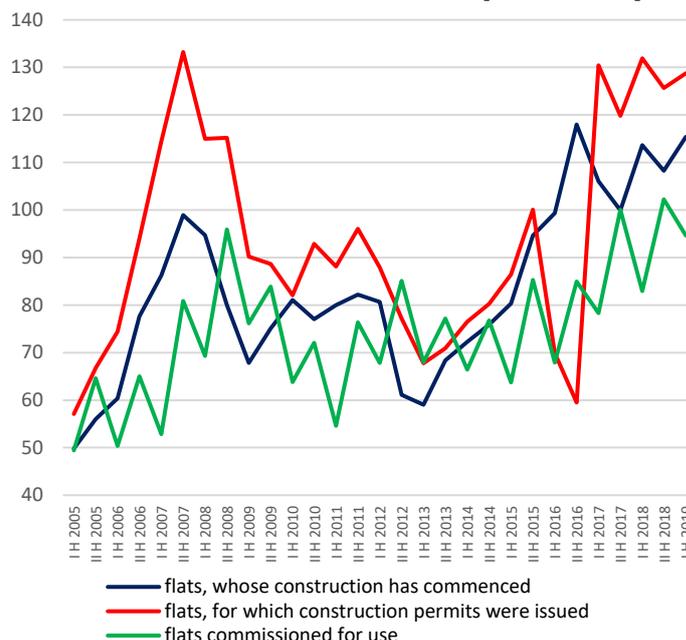
The number of flats, for which a construction permit was issued or pre-construction notification was made with a construction project amounted to over 128.7 thousand. The highest increase was recorded in such voivodships as: Dolnośląskie (↑54.0%), Lubuskie (↑44.6%) and Opolskie (↑31.3%).

The highest decrease was recorded in the voivodships: Świętokrzyskie (↓31.7%), Warmińsko-Mazurskie (↓24.9%) and Zachodniopomorskie (↓19.6%), Małopolskie (↓19.0%) and Mazowieckie (↓18.8%).

The number of flats commissioned for use in the 1st half of 2019 amounted to over 94.6 thousand. The highest increase was recorded in the voivodships: Łódzkie (↑34.1%), Podkarpackie (↑30.0%), Małopolskie (↑28.8%) and Pomorskie (↑27.5%).

The decrease was recorded in the Lubelskie Voivodship (↓6.5%) and Świętokrzyskie Voivodship (↓1.0%).

Residential construction in Poland [in thousands]



* "Flats" shall be understood as all housing units, including single-family houses.

Source: GUS, prepared by: mBank Hipoteczny SA

Residential construction in Poland in H1 2019				
change YoY	flats, whose construction has commenced	flats, for which construction permits were issued	flats commissioned for use	
Poland	→ 1.5%	→ -1.8%	↑ 14.1%	↑ 14.4%
Łódzkie Voivodship	↑ 45.4%	↑ 7.6%	↑ 34.1%	↑ 34.1%
Mazowieckie Voivodship	↓ -22.5%	↓ -18.8%	↑ 8.1%	↑ 8.1%
Małopolskie Voivodship	↓ -7.3%	↓ -19.0%	↑ 28.8%	↑ 28.8%
Śląskie Voivodship	↓ -10.8%	↓ -5.9%	↑ 13.8%	↑ 13.8%
Lubelskie Voivodship	→ -3.4%	→ 1.0%	↓ -6.5%	↓ -6.5%
Podkarpackie Voivodship	↑ 13.2%	↑ 23.3%	↑ 30.0%	↑ 30.0%
Podlaskie Voivodship	↑ 25.5%	↑ 13.6%	↑ 13.1%	↑ 13.1%
Świętokrzyskie Voivodship	↓ -23.8%	↓ -31.7%	→ -1.0%	→ -1.0%
Lubuskie Voivodship	↑ 46.9%	↑ 44.6%	↑ 16.4%	↑ 16.4%
Wielkopolskie Voivodship	↑ 18.7%	→ -3.5%	↑ 8.6%	↑ 8.6%
Zachodniopomorskie Voivodship	↓ -22.8%	↓ -19.6%	↑ 15.4%	↑ 15.4%
Dolnośląskie Voivodship	↑ 24.6%	↑ 54.0%	↑ 10.0%	↑ 10.0%
Opolskie Voivodship	↑ 24.0%	↑ 31.3%	↑ 5.4%	↑ 5.4%
Kujawsko-Pomorskie Voivodship	↑ 12.6%	→ -1.7%	↑ 18.5%	↑ 18.5%
Pomorskie Voivodship	↑ 10.2%	↑ 7.1%	↑ 27.5%	↑ 27.5%
Warmińsko-Mazurskie Voivodship	→ 1.1%	↓ -24.9%	↑ 5.9%	↑ 5.9%

Note: The dynamics of changes at +/- 5% were found to be stable.

Source: GUS, prepared by: mBank Hipoteczny SA

Structure of residential construction indicators in Poland

The structure of residential construction indicators in Poland by form of construction remained the same as in previous years.

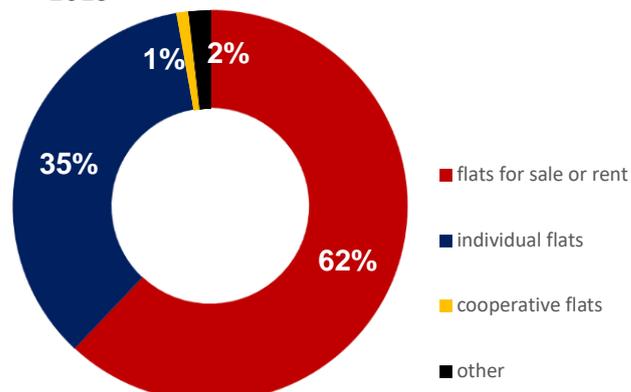
Investors building for sale or rent had the largest share in the total number of flats commissioned for use in H1 2019. During the period under consideration, investors building for sale or rent commissioned for use approx. 94.7 thousand of flats, representing around 62% of the total number of flats commissioned for use (↑ by around 22% YoY), obtained construction permits for approx. 129.5 thousand flats (↓ by around 4.3% YoY), recorded an increase (↑ by around 0.3% YoY) of the number of flats, whose construction has commenced up to around 113.6 thousand.

Individual investors represented a slightly smaller group, i.e. 35%, and the total number of flats commissioned for use by them in H1 2019 amounted to around 33.3 thousand (↑ by around 2.2% YoY).

The number of flats, whose construction has been commenced by individual investors amounted to approx. 46.1 thousand flats (↑ by around 3.0% YoY), while the number of flats, for which construction permits were issued increased by around 4.3% YoY to reach the number of around 48.5 thousand flats.

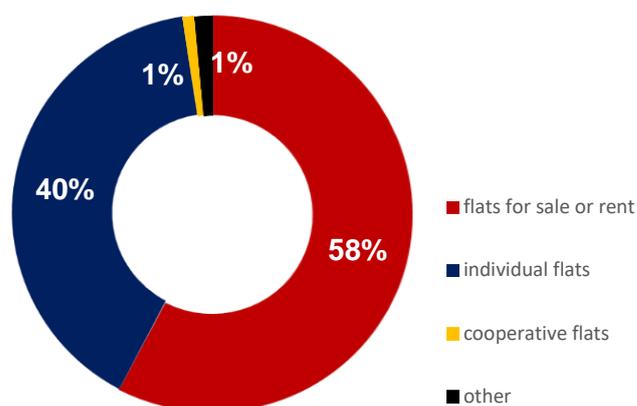
The participation of housing cooperatives and other investors in the above indicators, as in previous years, remained marginal.

Flats commissioned for use in H1 2019



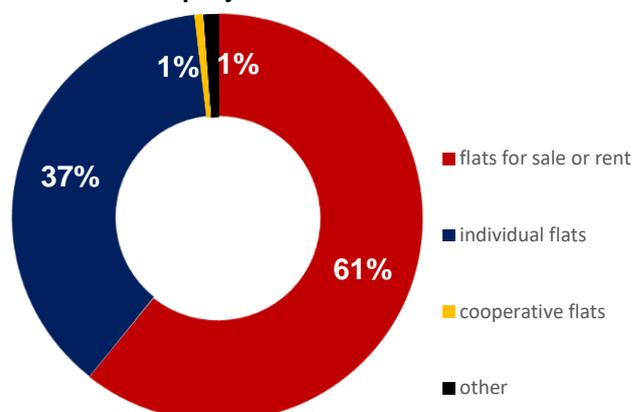
Source: GUS, prepared by: mBank Hipoteczny SA

Flats, whose construction has commenced in H1 2019



Source: GUS, prepared by: mBank Hipoteczny SA

Flats, for which construction permits were issued or pre-construction notification was made with a construction project



Source: GUS, prepared by: mBank Hipoteczny SA

Situation in the Polish housing market in nine major cities⁵

The analysis of residential construction indicators in nine major cities of Poland, in H1 2019 showed an over 14.6% increase in the number of flats commissioned for use compared to the same period in the previous year. Around 31.1 dwellings were put in place in the analysed markets, representing about 33.0% of the number of dwellings commissioned for use in Poland. The largest number of flats was marketed in Warsaw (approx. 9.5 thousand, ↓ by around 4.3% YoY), in Krakow (approx. 7.1 thousand, ↑ 57.6% YoY) and in Wroclaw (approx. 4.4 thousand, ↑ 2.9% YoY).

In the analysed period, a declining trend was observed for 9 cities (↓ by around 10.2% YoY) as regards the indicator of the number of flats, whose construction has commenced, which amounted to over 31.9 thousand flats (i.e. approx. 27.6% relative to the value for the whole Poland). The highest values, apart from Warsaw (9.6 thousand flats, ↓ by around 28.0% YoY) were recorded in Wroclaw (6.2 thousand flats, ↑ by around 3.5% YoY).

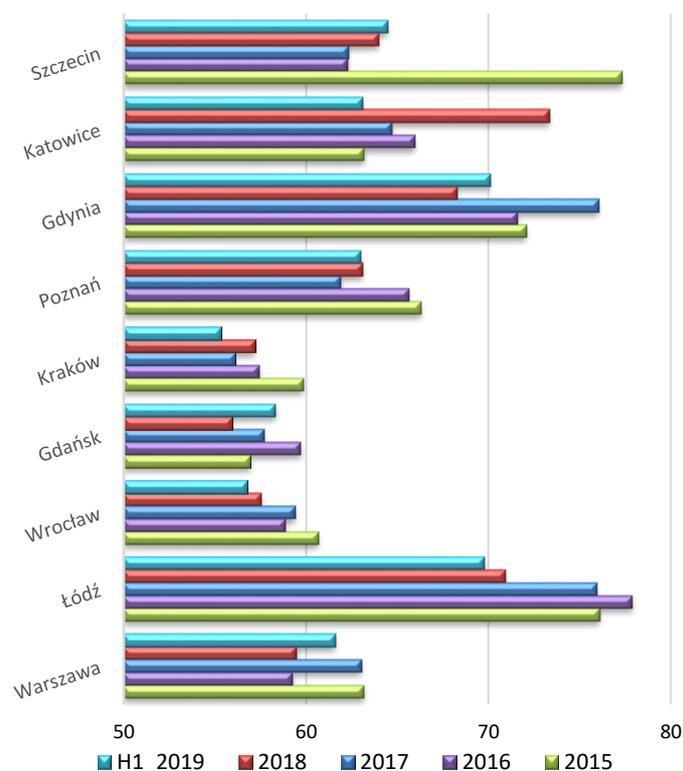
The number of flats, for which construction permits were issued amounted to approx. 35.9 thousand dwellings (i.e. approx. 27.7% relative to the value for the whole Poland). The highest values, apart from Warsaw (10.4 thousand flats, ↓ by around 20.0% YoY) were recorded in Wroclaw (7.3 thousand flats, ↑ by around 110.0% YoY) and in Gdansk (4.6 thousand flats, ↑ by around 35.5% YoY). The average change in the indicator for nine major cities was negative and amounted to around 7.6% YoY.

The average usable floor space of the flat⁶ commissioned for use in H1 2019, in nine major Polish cities, was 62.5 m² and was lower than in 2018. (63.3 m²). Flats with the largest average usable floor space of 70.1 m² and 69.8 m² were commissioned for use, respectively, in Gdynia and Lodz, while dwellings with the smallest average usable floor space were commissioned for use in Krakow (approx. 55.3 m²), Wroclaw (approx. 56.7 m²) and Gdansk (approx. 58.3 m²).

(in thousands)	Flats, whose construction has commenced	Flats, for which construction permits were issued	Flats commissioned for use
Poland	115.4	129.5	94.7
9 major cities	31.9	35.9	31.1
Warsaw	9.6	10.4	9.5
Krakow	3.8	3.5	7.1
Wroclaw	6.2	7.3	4.4
Gdansk	3.1	4.6	2.9
Gdynia	1.1	0.9	0.7
Poznan	2.5	3.5	2.3
Lodz	3.5	3.2	2.0
Szczecin	0.8	1.1	1.6
Katowice	1.3	1.4	0.6

Source: GUS, prepared by: mBank Hipoteczny SA

Average usable floor space of the flat commissioned for use (in sq.m.)



Source: GUS, prepared by: mBank Hipoteczny SA

⁵ The analysis was based on 9 cities: Warsaw, Krakow, Gdansk, Gdynia, Wroclaw, Lodz, Poznan, Szczecin and Katowice, with the largest market share.

⁶ "Flats" shall be understood as all housing units, including single-family houses.

The 1st half of 2019 in the development market for the six largest markets in Poland was a stable, albeit slightly weaker period, both as regards sales and a new offer of marketed flats comparing to the same period in the previous year. The number of dwellings sold, counted in total for six markets⁷ in the analysed period, reached a level of 31.6 thousand flats (↓ by about 7.1% YoY). The highest sales of flats (16.5) were recorded in the Q1 2019.

A relatively large number of flats (31.8 thousand) were marketed (↑ by around 2.6% YoY). Most of these were marketed in Q1 (16.9 thousand). It is worth noting, however, that in Q2 2019 14.9 thousand flats were marketed, and that was the weakest result in less than two years.

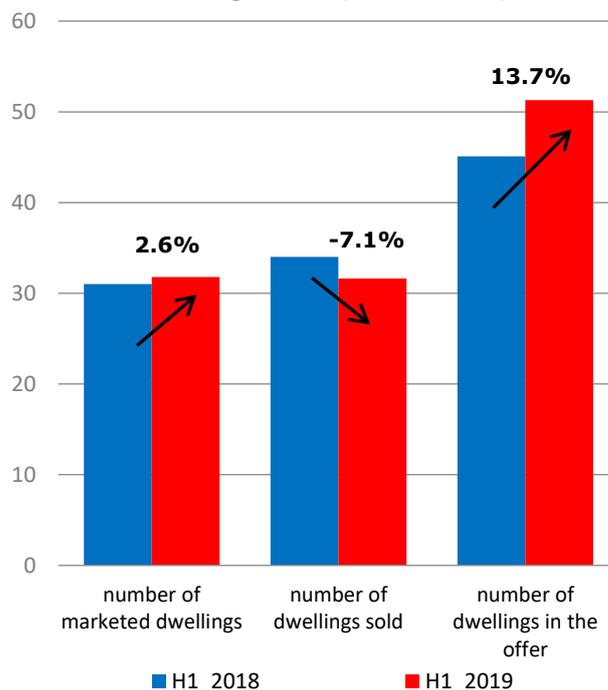
Consequently, the stock of unsold flats in the six largest markets increased by around 6.2 thousand as compared to the end of Q2 2018 and at the end of Q2 2019 amounted to approx. 51.3 thousand flats (↑ by around 13.7% YoY).

Warsaw remained the leader as regards the largest number of flats offered on the primary market.

A high level of flat sales significantly affected the structure of the offer available on the primary housing market, particularly in the context of sale of finished dwellings.

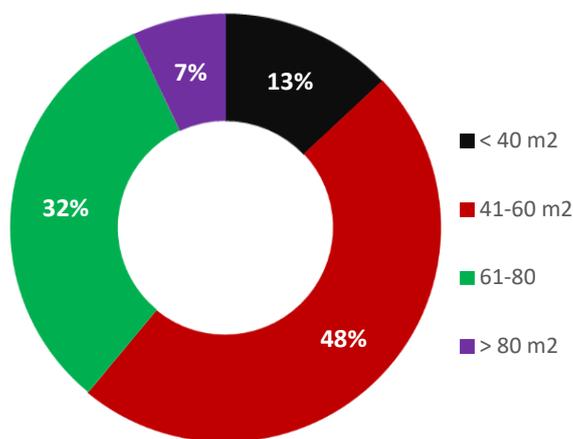
The offer all the time is dominated by dwellings with floor space up to 60 m², usually purchased as the first flat or for investment purposes and as a flat for rent. Poles started to bet on functionality, which entailed the increasing demand for smaller flats with more rooms.

Demand/supply changes in the primary housing market (in thousands)



Source: REAS, prepared by mBank Hipoteczny SA

Space structure of dwellings offered on the primary market



Source: REAS, Metrohouse, prepared by: mBank Hipoteczny SA

⁷ The analysis was based on 6 cities: Warsaw, Lodz, Krakow, Poznan, Wroclaw and Tricity

Analysis of average transaction prices in the real property market

Stabilisation of interest rates, salary increase, better and better tailoring of the offer in terms of floor space and prices maintained on a stable level, encourage purchasers to buy flats.

In H1 2019, the revival on the primary market of residential property was still observed. The offer and transaction prices for 1 m² of flats in the analysed cities showed an increasing trend (consistently since 2013).

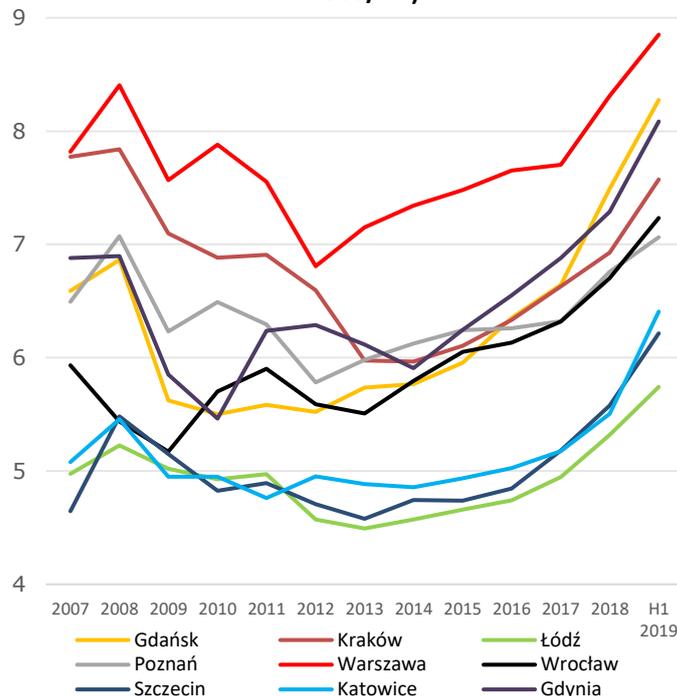
The average transaction price per 1 m², on the primary market in H1 2019, for nine major cities⁸ increased by around 9.3% compared to the previous year. The highest average increase in transaction prices per 1 m² occurred in Katowice (↑ by around 16.4%), in Szczecin (↑ by around 11.2%) and in Gdansk and Gdynia (↑ by around 10.0%), while the lowest increase occurred in Poznan (↑ by around 4.9%).

The highest average transaction price at the end Q2 2018 was recorded in Warsaw (approx. PLN 8,930/m²), in Gdansk (approx. PLN 8,290/m²) and in Gdynia (approx. PLN 8,180/m²). The lowest prices were recorded at the end of Q2 2019 in Lodz (PLN 5,850/m²), in Katowice (approx. PLN 6,270/m²) and in Szczecin (approx. PLN 6,480/m²).

The survey of average transaction prices per 1 m² in H1 2019, for nine major cities in the secondary market, showed an increase of around 6.4% compared to the previous year. The highest dynamics were recorded in Lodz and Katowice (↑ by around 10.3%) and in Gdansk (↑ by around 9.9%). The lowest price increase in the secondary market was recorded in Warsaw (↑ by around 1.8%) and in Poznan (↑ by around 3.8%).

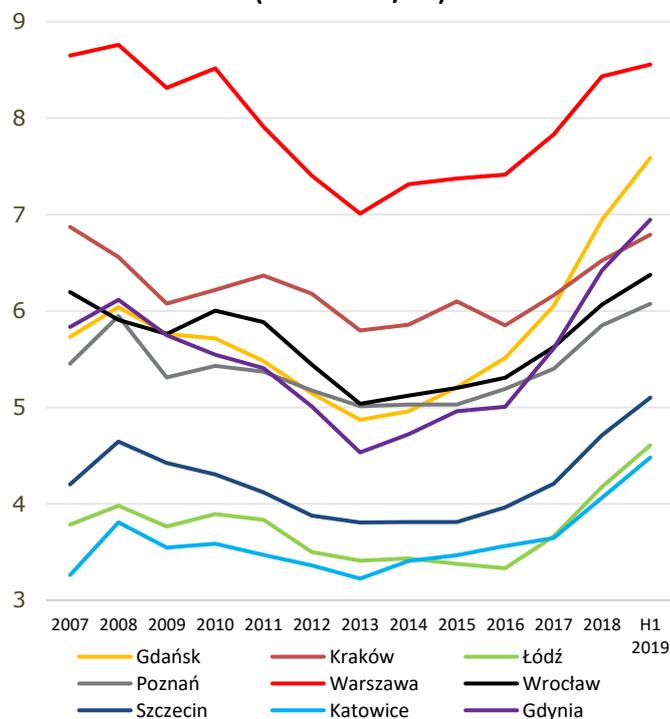
The highest average transaction price at the end of Q2 2019 was recorded in Warsaw (approx. PLN 8,600/m²), Gdansk (approx. PLN 7,800/m²) and in Gdynia and Krakow (approx. PLN 7,000/m²). The lowest prices were recorded in Katowice (approx. PLN 4,500/m²), Lodz (approx. PLN 4,600/m²) and Szczecin (approx. PLN 5,100/m²).

Transaction prices on the primary market (in PLN '000/m²)



Source: National Bank of Poland, prepared by: mBank Hipoteczny SA

Transaction prices on the secondary market (in PLN '000/m²)



Source: National Bank of Poland, prepared by: mBank Hipoteczny SA

⁸ The analysis was based on 9 cities: Warsaw, Krakow, Gdansk, Gdynia, Wrocław, Łódź, Poznan, Szczecin and Katowice, with the largest market share.

The rate of availability of flats in H1 2019 continued to show a falling trend due to the further increase in prices of flats. The systematic salary increase was at a lower level than the increase in prices of flats on the primary market.

Katowice and Szczecin are cities with the highest availability rate amounting to, respectively, approx. 0.94 m² (↓ 9%, at the end of 2018 this rate was approx. 1.03 m²) and approx. 0.84 (↓ 6%, at the end of 2018 this rate was approx. 0.90 m²).

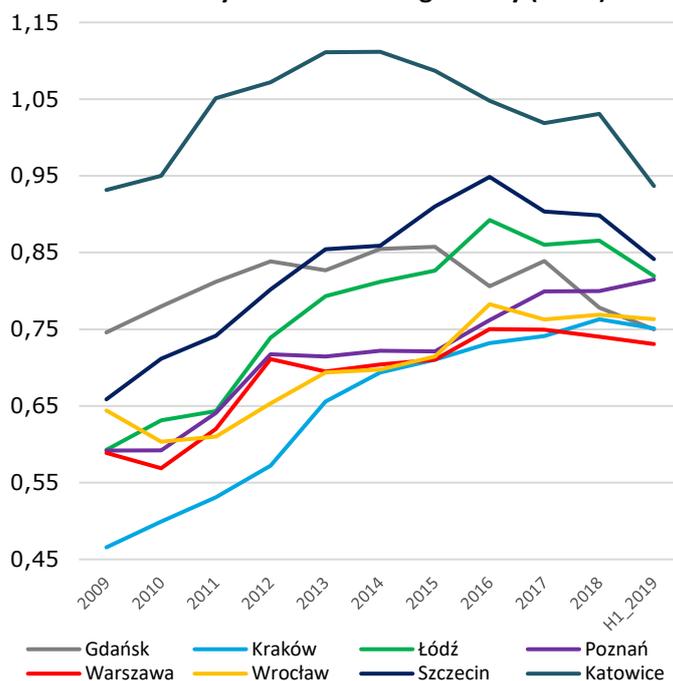
The rate of availability of flats is the lowest in Warsaw (approx. 0.73 m²) and in Gdansk and Krakow (approx. 0.75 m²).

The average rate of availability of flats for cities covered by the analysis at the end of H1 2019 was about 0.80 m².

The exposure period⁹ needed to sell out all flats available in the offer has increased by almost 4% compared to 2018. The average rate of sales of flats in H1 2019 for the cities analysed¹⁰ was around 3.28 quarters. In Q2 2019, it increased to around 3.3 quarters. The shortest time of the offer sell-out occurred in Krakow (about 2.5 quarters) and in Warsaw (about 2.9 quarters) and the longest in Poznan (about 4.9 quarters).

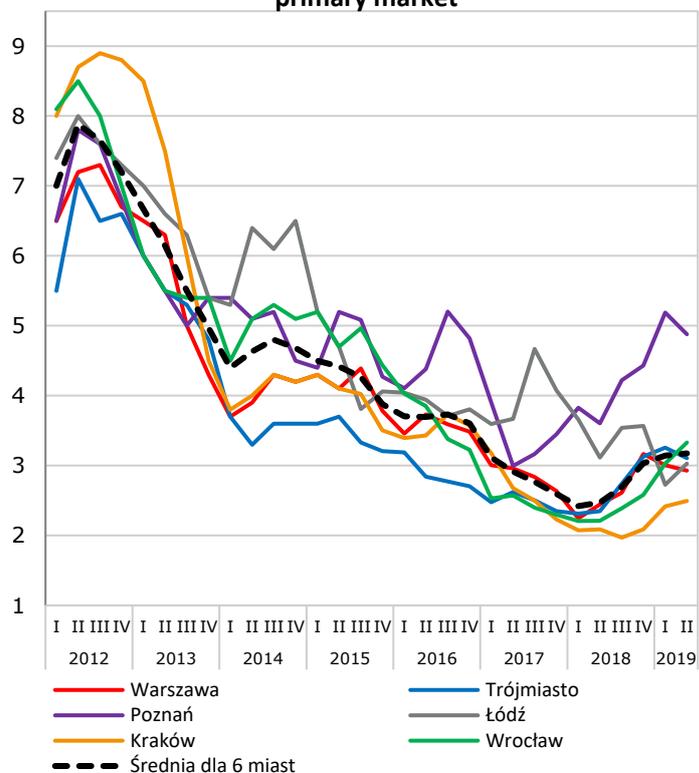
The most liquid flats were those from the so-called popular segment (2 or 3 – room, up to 65 m²). Flats attractive in terms of price, in good locations and higher standard dwellings found their buyers in a much shorter time.

Availability of flat for average salary (in m²)



Source: GUS, NBP, prepared by: mBank Hipoteczny SA

Time of sell-out of the current offer on the primary market



Source: REAS, prepared by mBank Hipoteczny SA

⁹Exposure period — the time of sale counted as the number of flats in the offer at the end of the quarter in relation to the average sales from the last year.

¹⁰ The analysis was based on 6 cities: Warsaw, Lodz, Krakow, Poznan, Wroclaw and Tricity

Forecasts for 2019

Factors affecting demand on residential property market:

- The continued low level of interest on bank deposits resulting from a low level of interest rates and favourable conditions in the labour market (unemployment reduction, systematic salary increase, the upward trend in household income and the operating 500+ programme) may indicate that persons seeking alternative sources of capital placement may constitute a large group of flat purchasers;
- The risk associated with financial instruments result in the transfer of funds to the real property market;
- Flexible adjustment of the developers offer to the market situation;
- The upward trend in dwelling prices;
- The continued upward trend in rental rates at different locations;
- The demographic factor in major cities;
- Increasing the number of affordable flats available on the real property market under the government programme called Mieszkanie Plus (Flat Plus)¹¹ (offering flats for rent or for rent with the option to obtain an ownership title).

Factors affecting the supply on the residential property market:

- Relatively high rates of return on housing projects encourage developers to maintain high construction activity;
- Limited access to new, attractive development areas and an increase in prices of investment land;
- Growing construction costs (building materials and construction works) and shrinking human resources in the construction industry;
- Increasing interest in investing capital in flats for rent among private investors;
- Growing interest in the Polish rental market on the part of global investment funds.

¹¹ <https://mieszkanieplus.gov.pl/program/>