PRS MARKET IN POLAND

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BUSINESS, LEGAL & TAX INSIGHTS

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PROLOGUE

Poland's private rented sector (PRS) is only getting off the ground. It's like the first-born son to a monarch who, when still a toddler and can barely speak, is the centre of attention and raises high hopes while having to contend with the pressures of growing up in a royal household.

Despite its tender age, our enfant chéri is at a turning point – rising cost of borrowing, rising cost of labour and building materials, shrinking land for development, growing market regulation, social and demographic changes, increasing demand for housing fuelled by Ukrainian refugees.

These social and economic factors will change the face of the housing market and the PRS. Add to this numerous legal issues connected with building to rent on land designated for commercial lettings.

Finally, like in the mustard-filled doughnut prank, there is the tax trap – practically every decision in the run-up to being fully operational can determine the VAT treatment of future lettings and influence project viability.

With all this in mind, it makes sense to go into PRS investment with eyes wide open.

Good research is critical and our report is a good place to start.

CRIDO & Savills teams

PROLOGUE

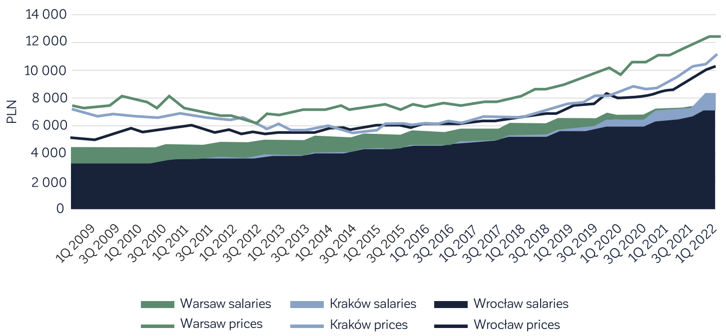
01

Residential and PRS market overview

MARKET SNAPSHOT - HAVE WE REACHED THE TIPPING POINT?

The housing market in Poland has experienced a decade of healthy growth with affordable mortgage market fueling sales. As a result, transaction volumes and prices have been growing steadily since 2012. Moreover, unlike many other major economies, this dynamic has been well-founded on a growing economy and increasing salaries. Consequently, despite price hikes, affordability of apartments in Poland improved between 2012 and 2017 and started to slowly deteriorate in 2018, with dynamics of apartment prices exceeding salary growth.

NEW FLAT PRICES VS SALARIES IN TOP 3 CITIES

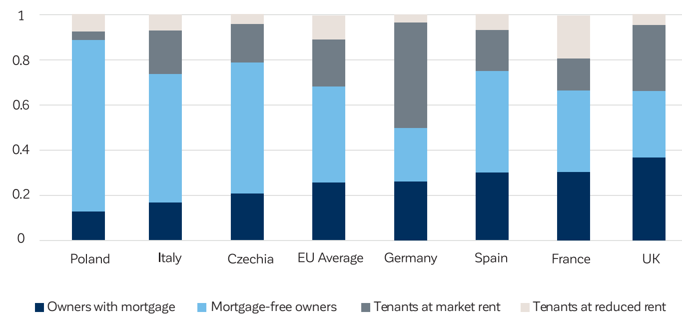


Source: NBP, average gross salaries in the enterprise sector vs. prices of new flats

HIGH HOME-OWNERSHIP RATIO, MOSTLY MORTGAGE-FREE

Despite the booming housing and mortgage market, Poland still has one of the highest ownership ratios in Europe and one of the least encumbered housing stocks.

OWNERSHIP AND TENANCY IN EUROPE



Source: Eurostat

The COVID-19 outbreak in Poland did not stop the housing market boom, although a series of lockdowns limited transaction volumes. To mitigate the adverse effects of the pandemic and support the economy, the central bank cut the rates in May 2020 to a record low 0.1%. This resulted in a record fall in saving accounts.

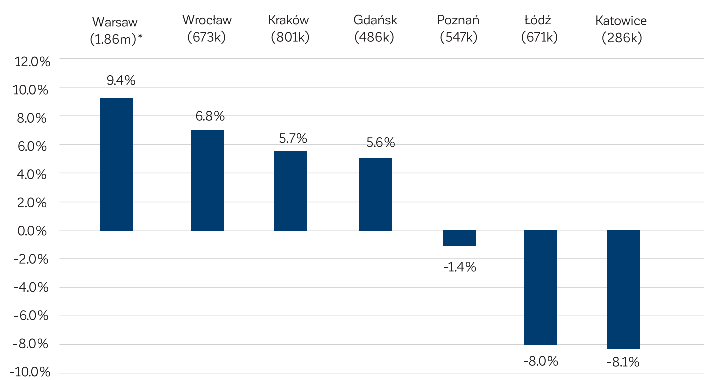
In just nine months, between March and November 2020, 30% or over PLN 80 billion worth of deposits were liquidated.

One of the consequences was also a further apartment price hike of 30%+ between Q2 2020, and Q2 2022 fueled not only by cheap credit but also by an unprecedented wave of cash buyers trying to preserve their savings in light of growing inflation.

URBANISATION TRENDS BOOSTED THE HOUSING DEMAND

Growing urbanization is among the major factors impacting housing demand in Poland. As the National Census 2021 results showed, growth of population has been uneven between the cities with Warsaw growing the most, and a continued population decline in Łódź and Katowice.

POPULATION CHANGE [2021 VS 2011]



Source: National Census 2021,
*2021 population

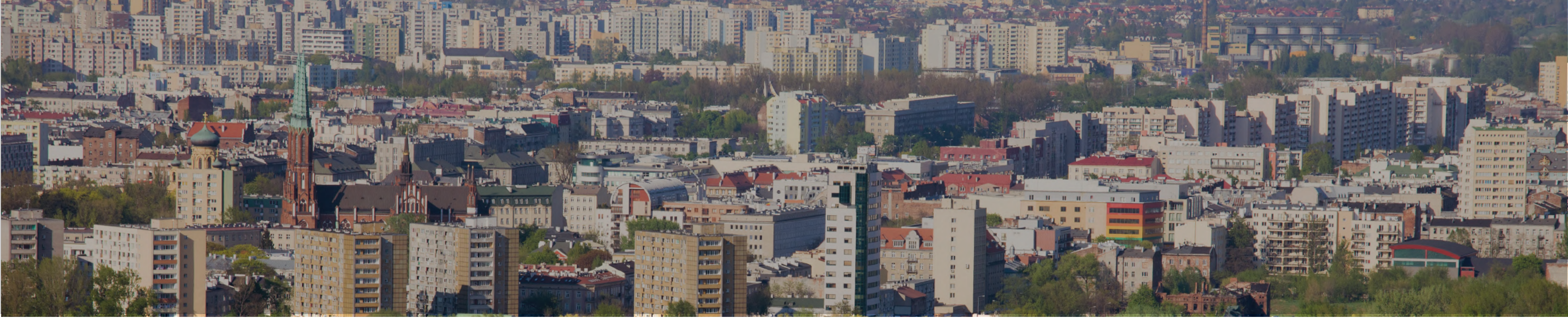
WAR IN UKRAINE BROUGHT NEARLY 2 MILLION NEW RESIDENTS TO POLAND

The influx of refugees caused by the war in Ukraine boosted the number of immigrants from Ukraine and Belarus and created housing shortages in all major cities. Official border control statistics estimate net immigration from Ukraine after March 2022 at approx. 1.8 million.

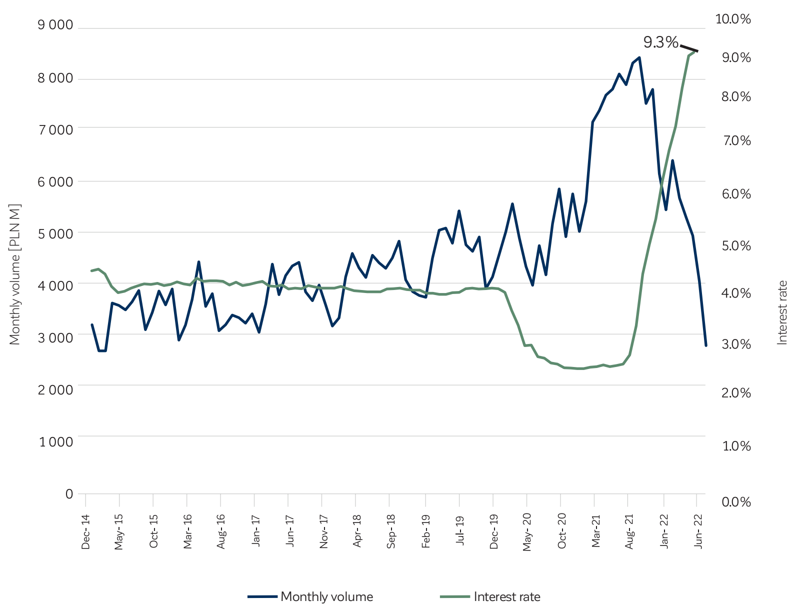
According to the official registration system (PESEL) the highest number of Ukrainian citizens registered in Warsaw (over 120,000), followed by Wroclaw (45,000), Krakow and Poznan (32,000 and 31,000).

SHARP SLOWDOWN OF THE MORTGAGE MARKET

After eleven consecutive increases of the main rate by the Polish central bank since October 2021, the mortgage market in Poland recorded a historically deepest dive, and according to August 2022 data, the volume of new housing loans dropped by over 70% YoY.



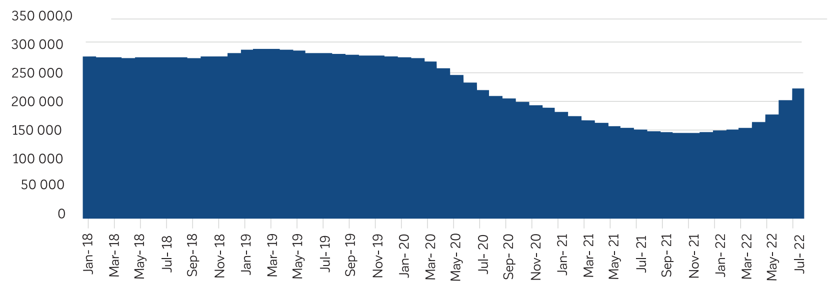
NEW HOUSING LOANS - COST AND VOLUME



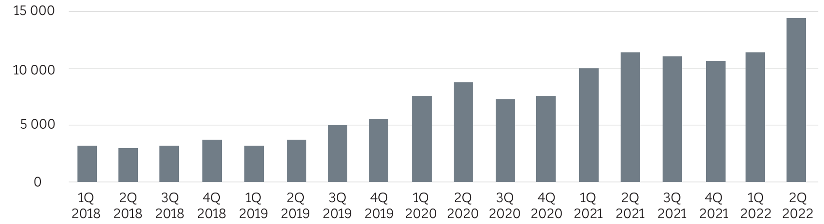
Interest hike was merely one factor limiting mortgage affordability of buyers. In March 2022, the Financial Supervision Authority in Poland issued a new recommendation for banks, suggesting calculating the capacity of mortgage instalments increased by an additional 5%. Consequently, the average mortgage affordability has halved for many households since April 2022.

In parallel, with the growing interest rates, individual investors have decent alternatives to investing in flats. Both the saving accounts (growing interest since November 2021) but also saving treasury bonds have grown more popular, beating records in sales in Q2 2022.

DEPOSITS UP TO 2 YEARS [PLN M]



SAVING TREASURY BONDS [PLN M]



FALLING MARGINS AND SALES VOLUMES AFTER RECORD 2021

According to our interviews with developers, the number of cash buyers remains high (even at over 70%) but cannot obviously replace leveraged buyers, which have now vastly disappeared.

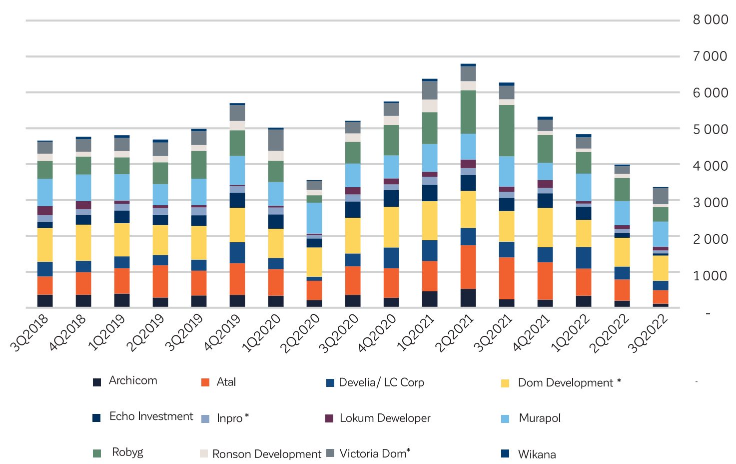
Hence, the record drop in sales numbers of major developers (-46% YoY in Q3 2022) caused them to limit the supply and delay the commencement of new projects.

Developer margins have been rising for the past few years, reaching their peak at the turn of 2021-22.

The margins started to soften in 2022 when construction costs began to catch up with the increasing prices of flats.

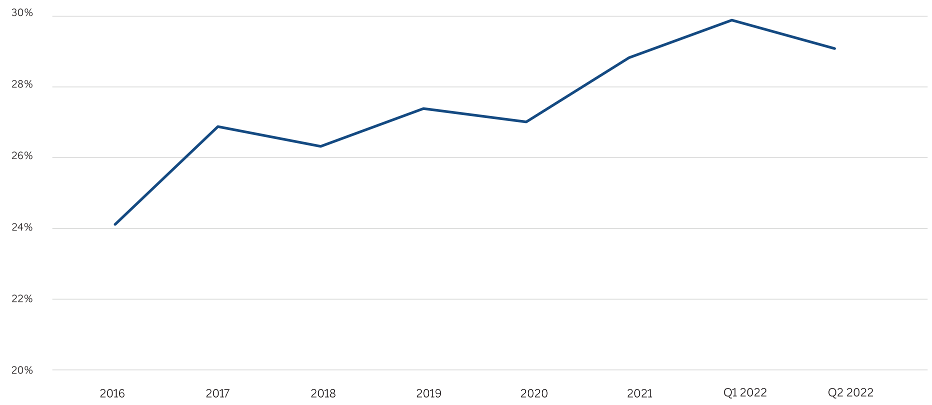
We expect developers' profits to remain under pressure as falling demand will not allow developers to pass increased budgets onto the buyers entirely.

QUARTERLY SALES OF SELECTED LISTED DEVELOPERS



* Including reservation agreements

LISTED DEVELOPERS - AVERAGE GROSS MARGINS



RESIDENTIAL CONSTRUCTION - COSTS AND NEW DELIVERIES

Dynamically growing construction costs have also negatively impacted the residential market. In July 2022 index of construction and assembly production was over 13% higher YoY, with annual cement price growth close to 40%. But in recent months early signs of potential stabilization in selected cost groups have emerged.

CONSTRUCTION PRICES - YoY % CHANGE

Source: Statistics Poland, PSB Group

BUIDLING PERMITS AND NEW CONSTRUCTION

Over the last six years the number of permits granted for construction of new residential projects exceeded 50,000 per year, reaching an all time high in 2017 with 68,000 and recording similar figures in 2018 and 2021. And the number of new construction works commenced per year was also high at approx. 50,000 - 63,000 during this period. Although similar in terms of the number of permits, figures showing new constructions commenced in the first eight months of 2022 dropped by a third as compared to the same period of 2021. At the same time, the number of dwellings completed up to the end of August was lower by 20% than in the respective period of 2021. This shows the pipeline among residential developers is still considerable, but as mentioned the number of individual buyers has plummeted. While pre-sales for the buildings to be delivered this year and in early 2023 is satisfactory (>50%), developers will either need to: halt new projects, lower pricing or take advantage of strong fundaments of the PRS market. What is essential, PRS investors prioritize permitted projects and fixed-price construction contracts to mitigate inflation risk.

CONSTRUCTIONS STARTED AND BUILDING PERMITS

Source: Statistics Poland

PRS MARKET TODAY

The PRS market is still in its infancy, with less than 8,500 rental units available. The announced pipeline of projects points to nearly 54,000 units in the coming five to seven years. According to our estimates, the current number of PRS units remains below 1% of all apartments for rent in Poland. Even when all planned projects are built, the institutional rented market will remain marginal. The situation could change if major built-to-sell developers decided to deliver more PRS projects instead of apartments for sale.

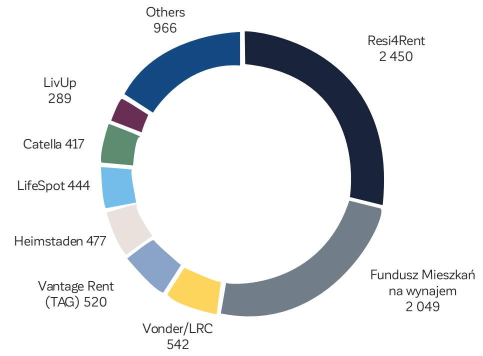
Number of units by development stage

Existing	Under construction	Planned	Total
8, 154	10, 269	35, 541	53, 964

Source: Savills. Data as of September 1, 2022

Over 50% of total available stock is controlled by the two largest investors to date, Resi4Rent and Rental Housing Fund (PL: Fundusz Mieszkań na Wynajem). Assuming that all investors will deliver disclosed projects currently in the pipeline, the top 3 players would comprise Griffin Capital Partners, incl. two platforms Resi4Rent and LifeSpot, Heimstaden and Vantage Rent.

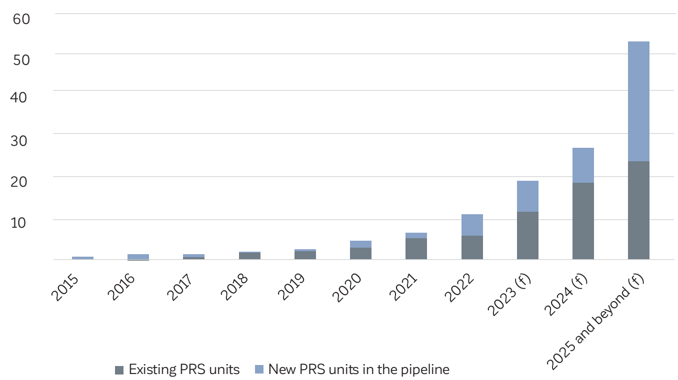
PRS INVESTORS IN POLAND [BY NUMBER OF UNITS]



Source: Savills. Data as of September 1, 2022

Over the years the PRS market has grown in popularity among investors, but has lacked appropriate scale. Though some new projects have been recently delivered to the market, we expect further growth of the market in the coming years which in terms of number of units should exceed 20,000 in 2025.

SUPPLY OF PRS UNITS (IN THOUSANDS)



Source: Savills

With the resi-for-sale market experiencing an unprecedented boom over the last two years, institutional investors interested in the Polish PRS struggled to underwrite new projects, as they had to compete with low-cost levered individual buyers. Coupled with relatively stringent design requirements in the residential market, caused investors to turn into commercially-zoned sites, which allow for the development of accommodation schemes. As a result, 18% of the existing PRS stock is located on commercially zoned land, with the dominant share of 82% located on land with a residential designation.

Still, the question of whether commercially zoned assets will increase their share in the entire PRS portfolio in Poland remains open.

	Residential Zoning	Commercial Zoning
Pros	• Easier to obtain administrative decisions • Product well-known to banks • Significantly lower property taxes & RPU fees • Fallback option via sale to individuals	• More flexibility in building design • Usually less parking spaces required • Potential VAT recovery
Cons	• Less flexibility in building design • Usually more parking spaces required • VAT leakage, as revenues are usually tax-exempt	• Certificate of permanent residence cannot be obtained • Higher property taxes & RPU fees • Limited exit strategy via sale of units to individuals

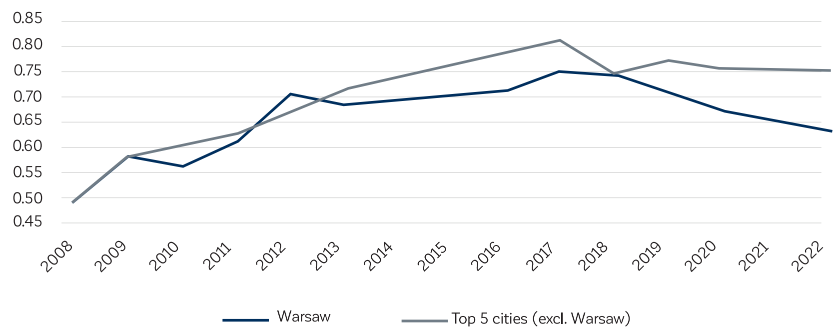
BUYING VS RENTING – STILL A MATTER OF CHANGING HABITS?

In our opinion, further development and institutionalization of the rental market in Poland are inevitable. Sharing economy – a global phenomenon from the last decade, induced a radical shift in consumer habits across many sectors, and residential is one of them. Therefore, it was widely assumed that introducing new standards by institutional investors should help fight various pathologies associated with the individual rental market and empower consumers with more flexibility and choice.

As those ‘soft’ arguments are still valid, what is currently enhancing the shift are growing apartment prices over the years coupled with recent hikes in mortgage costs, which are forcing thousands of customers into renting.

Housing affordability started to deteriorate earlier. The simple ratio of average salary to the price of a new flat shows that 2018 prices of flats began to grow at a faster pace than salaries.

SIMPLE HOUSE AFFORDABILITY [AVERAGE SALARY/NEW FLAT PRICE PSM]

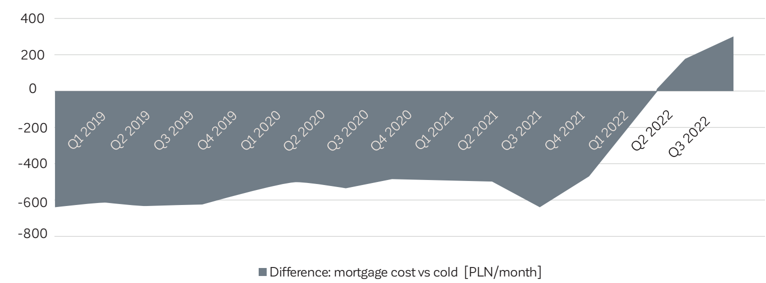


Source: National Bank of Poland, Statistics Poland, Savills

In Q4 2021, the average mortgage cost of a new apartment with an area of 50 sq m, including fit-out, in the six largest cities in Poland, started to grow dynamically and in Q1 2022 exceeded the average cold rent in those locations.

We estimate the spread between the current mortgage cost of a new apartment with an LTV of 65% and an average cold rent, i.e. rent without service charges and utilities, to have reached to approx. PLN 300 per month in Q3 2022.

DIFFERENCE: MORTGAGE COST VS COLD RENT [PLN/MONTH]



50 m2, LTV = 65%, 30-year mortgage, average for top 6 cities

Source: National Bank of Poland, Savills

OUR OUTLOOK FOR THE NEXT 12 MONTHS

As each quarter reveals a further fall in sales figures, many developers are considering alternative sales channels, such as setting up their own PRS platforms, forward funding/ purchase models or joint ventures with PRS investors.

PRS, by its nature, is a low-yielding, defensive product which requires an adequate long-term strategy. Moreover, the operating model is more sensitive to growing operating costs than typical commercial properties with triple-net leases. Also, the profitability of the product relies to a large extent on carefully planned floor layouts, a low number of parking units and optimized common areas. This all, tied with the lack of experienced operators in our view, creates headwinds for the traditional residential developers to run their rental platforms.

Our estimates called for over 20% average rent increase in the first nine months of 2022. We expect this unprecedented rental growth will soften as growing inflation will squeeze disposable incomes, especially those of lower-income tenants.

Despite operating costs pressure, strong demand and growing rents help PRS investors in their underwriting. However, as they also must deal with an increased cost of finance, impacting their returns, we believe the market will need to reprice in 2023.

In addition, following the economic slowdown, we observe softening demand pressure on construction costs. Although energy costs continue to fuel the inflation's supply side, we expect construction costs to stabilize or fall in 2023. Consequently, this should give more headroom for the developers to optimize their projects and find institutional investors to diversify their exit options. However, we expect the development margins to fall to reflect the lower commercial risk of such transactions. As mortgage buyers are vastly gone, developers will limit the commencement of new projects, widening the supply gap even further. Stretched for-sale affordability, limited supply and energy efficiency offered by modern PRS schemes will continue to support tenants' demand.

KAMIL KOWA

HEAD OF CORPORATE FINANCE & VALUATION AT SAVILLS

02

Tax and legal aspects of PRS investments

We are not aware of many business activities in which taxes (especially VAT) can blow the project budget as easily as in the case of activities in the PRS market. And by this, we do not refer to any optimization measures, but to simply adjusting the business to the current regulations. Also, few real estate projects require such a thorough tax and legal analysis from the very beginning, including cooperation in both areas in order to properly assess with the client the feasibility of their chosen business model in a given location, or to develop a new one that minimizes financial risks for the investor.

Depending on the classification of our building, what functions the premises provided the client will fulfill, what amenities and additional services will appear in our offer, or how we calculate the price for our services, the services provided may be exempt from VAT, or taxed at 8% or 23%.

However, the method of taxation of the service provided determines not only its final price to the client, although this, of course, is a factor determining market success as well, but also what the real cost of the project will be to the investor. The timing of the purchase of the land or finished project and the corresponding contractual guarantee of the investor's influence over the entire project can also translate into the final cost of the project.

Awareness of the numerous problems can influence a change in business decisions, for example, by purchasing the property from a person who does not conduct business activity and avoiding the cost of additional, non-deductible tax, purchasing the project at an earlier stage, where appropriate changes can still be made to it, etc.

In this context, it is extremely important for business to take into account the full tax and legal implications of the investment already at the stage of creating its budget and business plan, as well as to ensure that the signed contracts for the acquisition of real estate, as well as the subsequent lease agreements, accurately reflect the nature of the project and enable to avoid both tax and legal risks, which are intertwined. For example, the legal classification of a lease agreement and the application of tenants' protection laws to it, may change the assessment of tax authorities. On the other hand, certain clauses that seem reasonable from a tax perspective (e.g., limiting the use of the premises) will, to a lawyer, turn out to be abusive clauses that cannot be used in consumer transactions.

The difficulty of the above analysis lies largely in the fact that it is not based on clear guidelines found in the tax law, as well as on the relevant planning or technical regulations governing the function corresponding to the Build-To-Rent concept. And it should be borne in mind that the regulations of construction law, the restrictions of the Civil Code and, above all, the statistical norms not written in the act will be relevant to the legal and tax assessment of a given benefit.

In this light, an understanding of the tax aspects accompanying the implemented investment, as well as the planning capabilities of a given location, and properly structured documents from the legal side, seem to be essential to avoid real financial risks for the investor. Meanwhile, the not-quite-clear criteria affecting taxation principles render it reasonable to make use of all instruments enabling to increase the level of tax security of the organization already in the investment planning process, such as, for example, individual interpretations of tax laws or binding rate information.

On the following pages, we show what legal and tax aspects, rules or regulations are worth paying attention to at each stage of a PRS-type project.

JOANNA WINTER-SZYMAŃSKA

COUNSEL AT CRIDO | LEGAL

MACIEJ DYBAŚ

PARTNER AT CRIDO | TAX

LAND PURCHASE → **PREPARATORY PHASE** → **CONSTRUCTION PHASE** → **OPERATIONAL PHASE**

Transaction type → Contractual terms

- Acquisition of SPV vs asset deal - one investment/ one dedicated SPV; all administrative decisions and investment agreements in SPV; adequate building/premises project documentation; building guarantees on market terms
- Collaterals: pledge on shares, sureties, mortgages etc.
- Forward deals: forward funding vs forward purchase
- Split of construction risk and financial risk between developer and investor, in particular in forward deals
- Control over the construction process, including architectural project, its adjustments to the investor's needs and business model; obligations of the general contractor towards the investor in terms of construction guarantees

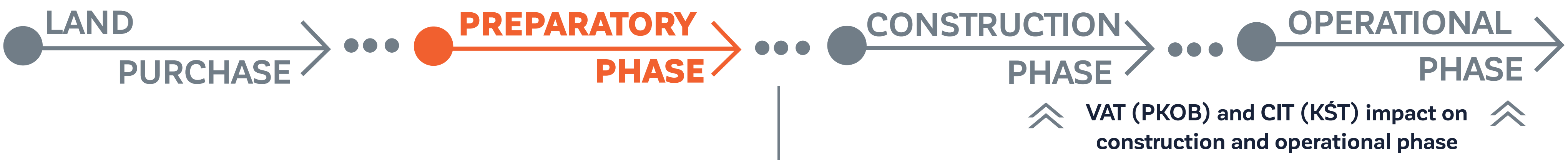
Zoning plan/Building permit

- Impacts VAT/stamp duty on purchase of land
- Affects other phases as well:
  - Rules of VAT taxation on land purchase
  - Operational model – i.a. what can be erected on land and what type of service can be rendered (residential lease, common residential, accommodation)
  - VAT on operational phase
  - Architectural project; project budget
  - Possible changes in the project/business model in the future - exit plan for the project

Land purchase | 2% stamp duty vs 23% VAT

- Seller's status (VAT taxpayer/private individual – non-VAT payer)
- Land status and its history (developed/ undeveloped)
- Acquisition structure (asset deal vs going concern)
- Impact of taxation upon operational phase (VATable or VAT exempt) on right for VAT deduction upon acquisition (business model in operational phase triggers VAT deductibility/VAT neutrality)

Purchase which is subject to stamp duty may be more effective than purchase with non-deductible VAT



Business model

- Determining investment principal function (residential/hotel/services)
- Additional service elements (concierge, reception desk, dining laundry, swimming pool, gym)
- Utilities reconciliation model (flat-rate vs meter)
- Premises reservation system
- Duration of lease agreements
- Concluding agreements – traditional vs electronic model
- Management over the project

Project

- Building permit and architectural project:

  - Building type (residential/hotel/services)

  - Fixture and fittings functions (i.a. garages, social premises)

  - Area of particular premises and ratio of usable part of premises in overall space (impact on VAT)

  - Adequate statistical classification (Polish Building Object Classification)

  - Common areas, e.g. lobby, terrace, space for additional services

- Impact of zoning conditions

  - No specific regulations for PRS-type buildings – general rules only

  - Investments on land intended for:

  • multi-family residential development or

  • services, if construction of communal residential buildings is possible

  - Building type - impacts technical requirements of the investment, design, construction and operating costs of the investment

- Investment model and transformation of perpetual usufruct into ownership

LAND PURCHASE → PREPARATORY PHASE → **CONSTRUCTION PHASE** → OPERATIONAL PHASE

VAT on construction and fit-out works: 8% vs 23%/allocation

- Design services
- Use of general contractor vs sub-contractors
- Fixtures and fit-outs– purchase of products vs purchase of montage service (windows, doors, furniture, other)
- Residential vs non-residential premises
- Greenery
- Building description and classification in project documentation (impacts VAT and CIT in the investment phase)

Fixed assets cost allocation

- Buildings/separate premises

  (NOTICE: no depreciation of residential RE)
- Structures
- Other + fixture and fit-outs

Monitoring the investment

- Monitoring and acceptance of investment within the forward model:

  - Open control over the investment by technical expert (progress of works, completion of stages of the investment)

  - Ensuring the possibility of making changes to the project (so-called tenant changes)

  - Completion of a given stage of construction and payment of subsequent tranches of financing

  - Acceptance of construction work in the presence of the project owner/target

  - Control over discrepancies between the performed works, project delays, contractual penalties

LAND PURCHASE → PREPARATORY PHASE → CONSTRUCTION PHASE → **OPERATIONAL PHASE**

VAT rate exempt/8%/23%

- Occupancy permit, building classification (description in documentation)
- Scope of tenants/user rights under the agreement
- Duration of service
- Premises functions (kitchen, bathroom)
- Additional fittings in the premises (e.g. furniture, bedding, cutlery)
- Additional services (Internet, television, concierge) and accommodations (reception desk, gym, pool)
- Rent calculation

  - Parking, storage cell (included in rent/reconciled separately)

  - Utilities reconciliation cell (included in rent/ reconciled separately)

  -Reservation fees, deposits, penalties
- Mechanisms securing the landlord/tenant
- External management
- B2B vs B2C client (different model of agreement required, see commercialization)
- Assessed separately per each contract
- Change of investment type vs input VAT correction

Tax depreciation

- Type of premises: tax depreciation/no deprecation

Real estate tax

- Type of premises and its actual use – RET rate applicable for

  - Residential space or

  - Commercial (business) premises

Commercialization | type of agreement and collaterals

- Type of agreement: lease/institutional lease/ accommodation service

  - Operational model/type of premises (residential/ service)

  - Type of the tenant - B2C or B2B

  - Civil Code/Act on the protection of tenants' rights, municipal housing reserves

  - Specific anti-abusive clauses: Civil Code and register of prohibited anti-consumer clauses (agreement concluded mostly with B2C clients)

  - Duration of the contract vs its form
- Possible collaterals

  - Deposit

  - Voluntary submission to enforcement

  - Tenant's liability insurance

  - Rent insurance - rent payment protection

03

Insights from PRS market

Change is the only constant in life and it would be hard to disagree with this statement. Judging by the evolution of the housing market in the last two years, it seems reasonable to say that any attempts at coming up with long-term forecasts are burdened with a significant degree of risk. As the world faced a pandemic in the spring of 2020, many commentators predicted a decline in demand and a correction in property prices. However, apart from a slowdown in the property rental market which lasted for several months, the volume of newly built houses and apartments broke new records, driven by low interest rates which generated additional demand for upscale properties, with new players entering the institutional rental market. Despite the first interest rate hikes in almost a decade, the domestic housing sector wrapped up the previous year in optimistic moods and with record-breaking performance. This optimism received a heavy blow from the war in Ukraine, which brought about investment uncertainty, higher inflation rates and heavier financing costs. The high inflation and interest rates suppressed lending, which caused housing developers to reduce supply quite substantially. The toughest consequences of this slowdown will be most evident in some two or three years. Naturally, in these circumstances, people looking for residential properties turned their attention to the rental market, which has become an attractive alternative. Moreover, the demand for apartments for rent became only stronger due to the arrival of a large number of refugees fleeing the war in Ukraine. Today, more than ever, it makes perfect sense to invest in Polish PRS projects. At the same time, one should keep in mind that the increase in financing costs, the energy crisis affecting development project execution expenses, rising housing maintenance expenses and exchange rate risk may all exert a significant impact on the rate of growth of this market segment.

WOJCIECH CARUK

PRESIDENT OF THE MANAGEMENT BOARD OF PFR NIERUCHOMOŚCI

MAREK OBUCHOWICZ

PARTNER, GRIFFIN CAPITAL PARTNERS

Despite its nascent character, the Polish PRS market has undergone several material market turbulences since its inception.

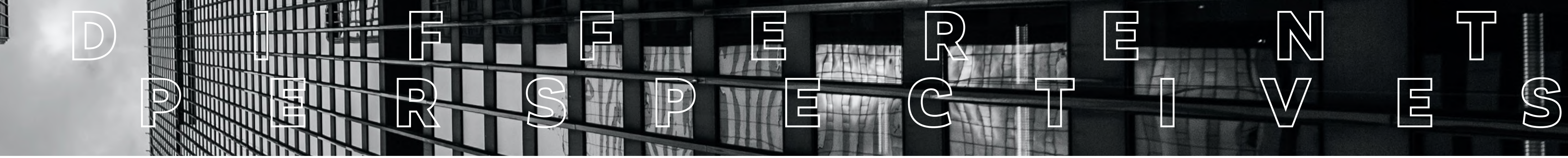
Similarly to the private owners of rental apartments, the institutional players had spent the entire 2020 and most of 2021 battling the new realities of Covid-19, i.a. substantial drop in demand due to trends such as home-office (lower workforce mobility) and remote schooling.

The second half of 2021 and most of 2022 have been characterized by rising construction costs coupled with an unprecedented series of interest rates increases introduced by the Polish central bank, pushing the cost of PLN-denominated financing to its' highest level in 20 years. Furthermore, no apparent foreign currency-denominated alternatives come to mind, given the relatively high cost of FX hedging these days. On the bright side, the rents are currently record-high and in some cases, the revenue side still manages to outweigh the negatives on the cost side and get the project through the increasingly demanding underwriting criteria set out by the investors...

Those who consider entering or expanding their presence in the Polish PRS market need to take a view on a multitude of factors, e.g.: shape of the WIBOR curve, capex & opex evolution considering double-digit inflation, rents sustainability (i.e. what portion of refugees will stay in Poland once the war ends?) to name a few.

In my view, it is worthwhile taking the time to explore these risks as this might just be the time to make some of the best project acquisitions, given the softening appetite for expansion from the resi-for-sale developers.

DIFFERENT PERSPECTIVES



Despite various macroeconomic and geopolitical challenges we have experienced in recent quarters, the European residential markets have proven to be resilient. High inflation and rising energy costs have affected all people and businesses, strengthening uncertainty in the global economy. However, with the general housing shortage in Poland and across Europe, we have observed a growing demand for rental apartments and a record low vacancy in our portfolio.

As the rental sector continues to be a safe and stable harbor for investments, we are ready to follow our growth strategy in markets with strong macroeconomic dynamics and a promising outlook.

At Heimstaden, we have a long term perspective when investing in residential real estate. As an evergreen investor, we have experienced strong but sustainable growth over the last years, both when it comes to standing assets and forward purchases of new development.

In the current market situation, our highest priority is to run the business in a way that makes it possible for us to stand out as one of the strongest real estate companies among our peers. We continue to make sure we keep growing with a safe cushion within our financial policy, while still considering interesting projects and investment opportunities that arise in the markets we are present in.

PRZEMYSŁAW ORCHOWICZ

HEAD OF OPERATIONS IN HEIMSTADEN

MIROSŁAW BEDNAREK

REGIONAL BUSINESS DIRECTOR, MATEXI NV

The PRS in the residential function is a relatively new product on the Polish market. Our first transaction in the PRS sector took place in 2016 and at was considered as a pioneering PRS project in the residential sector on the Polish market at that time.

Since then, we have concluded other PRS transactions in 2020, and now are carrying out another PRS project in the very centre of Warsaw.

Observing the market, the number of developers seeking to diversify their revenues by building projects for institutional investors has considerably increased in recent times. It comes as no surprise as currently almost all PRS buildings offering apartments for rent have a near 100% occupancy, which bodes well for the future. The rental of flats offered by institutional investors has become an interesting alternative to flats for rent offered by private owners. Consequently, it has led to an increased competition for institutional investors' interest among developers. Key selection criteria for investors will essentially be a know-how and experience already gained by the developer in conducting PRS projects. Matexi Polska has undeniably acquired both of them.

In essence, progressive demographic and social changes, high prices and restrictions on financing, have sparked a new trend in favour of both private and institutional rental sector. The symbolic need for ownership seems to be gradually becoming less convincing, while mobility and liquidity rationales are prevailing.

Bearing in mind the economic phenomena in our region, which are particularly intense in Poland:

- Inflation highest in 25 years
- Interest rates most elevated in 20 years
- Historically sharpest decline in the mortgage market
- The influx of refugees pushing rental demand to record levels
- Energy prices spiking to levels unseen in decades

I propose to look at the strategy of private housing construction in our country. It is clear that the trend of the influx of people to big cities will continue or even intensify. The idea of remote work is constantly being developed and begins to find legal regulations, but I am far from anticipating the departure of working Poles to small towns and to nature. The last census of the Central Statistical Office (GUS) showed the scale of the influx of people to large cities, which was additionally exacerbated by the influx of immigrants since the outbreak of the war in Ukraine. Thus, the demand for housing is there. How will housing needs be met? The state and local governments are certainly a great absentee in creating supply, but this is a topic for a separate analysis. The private sector, I am convinced of it, will continue to carry out its mission, what we are interested in is the continuation of the strategy of densifying the central districts of cities with buildings of high value for the environment and individual residents, and the development of a portfolio of apartments for rent for funds. It is extremely important today to create a pool of lands for investment in the form of wisely designed entire quarters or even districts. The new quality of urban planning in our cities is a challenge, we need to avoid uncontrolled spreading of the suburbs which rise the costs of infrastructure. Openness to cooperation with local governments, joint creation of space will allow for the production of flats that will be affordable for individual clients and that will be attractive to the funds for renting flats in Poland. Sure today we have very dynamic environment, however as history teaches us good urbanism, good architecture will always maintain its value- for people and landlords.

TYMON NOWOSIELSKI

CEO, EIFFAGE IMMOBILIER POLSKA

EYAL KELTSH

VICE PRESIDENT OF THE MANAGEMENT BO-ARD OF ROBYG GROUP

After the 2008 crisis, the market took about three to four years to return to normal. I think that this time – probably in the middle of next year – we will have a new normality. Credit customers will surely come back to the market if the government decides to introduce changes to increase the availability of loans. If not - despite everything, I believe that it will be more and more, but not at the same level as last year. The market was overheated and the demand was very high because people wanted to invest their capital in safe investments such as real estate. At the beginning of August, we started to observe a slightly more positive trend in the market – I think sales will improve month by month. We do not expect any drops in home prices. Already at the end of this year, the situation should stabilize in this respect, and next year I do not expect prices to fall. Investments are now based on land that has already been purchased at higher prices, inflation drives material and labor costs, so I cannot imagine that new projects would be launched at significantly lower prices. There is no oversupply in the market as it was in 2008. Large developers are unlikely to panic and wait this time, because today it makes no sense to sell under pressure, as demand is there waiting for mortgages to become more affordable, so it will return next year. In addition, we have an influx of refugees from Ukraine, according to various estimates, from 0.75-1 million people will stay in Poland - among them there are many potential apartment buyers, which means the need for an additional 250,000 - 300,000 premises, i.e. an even greater structural deficit"

The growing supply gap in the primary market is an opportunity for investors: for many years there has not been a situation in which the demand for residential units has been so great. However, and this is very important, the development industry now has to be extremely responsible, as new investments are planned carefully. We are facing a situation in which (due to rising inflation or spikes in material and energy prices) it is difficult to forecast a precise timetable for the completion of projects and the development of a long-term company strategy. However, a huge challenge for customers is the purchasing decision: in view of the shrinking availability of mortgages, more and more Poles are choosing not to buy, but to rent a flat.
The coming quarters will certainly see the dynamic development of the PRS segment, thanks to which it is possible to close the supply gap in the primary market relatively quickly. The realization of this type of investment is an opportunity for the ones who has sufficient equity at hand and not depended fully on external financing. In the longer term we strongly believe that this sector will deliver strong quality cash flow and value appreciation.
Investors are also looking with hope towards REITs as a model through which it is possible to obtain financing outside the banking system.
The said responsible investment planning is directly related to the risk we will face in the coming years with the uncertain situation in the energy market. Investors may be increasingly inclined towards passive building solutions, and energy efficiency in the broadest sense will become a standard both in business strategy and consumer behaviour.

GRZEGORZ JAMROZIAK

OPERATIONS DIRECTOR - RESIDENTIAL FOR RENT
ATRIUM EUROPEAN REAL ESTATE

PIOTR PAJDA

CO-FOUNDER AT SIMPL.RENT

The estimated residential rental market in Poland is 2 million units.
It is relatively small compared to other mature markets in Europe, but it is constantly growing. And it is additionally boosted by rising interest rates, lower loan accessibility and an influx of refugees.
Data shows that one third of landlords have experienced issues with rent payments from their tenants. Reducing financial risk and digitising processes are key to operating successfully in this accelerating market. This includes offering a smooth, digital onboarding process that speeds up the tenant's move-in and delivers security during the rental period.
Tenant screening has become the standard for PRS players and one of the first steps in the onboarding process. The potential tenant's reliability is checked in terms of their identity, credit history and income in relation to the rent. This, combined with rent guarantee insurance and tenant liability insurance, offers great protection for investors. We are also seeing a clear trend that landlords utilise insurance products in combination or as an alternative to a deposit; this flexible approach is appreciated by tenants.

CONTACT US

KAMIL KOWA

HEAD OF CORPORATE FINANCE & VALUATION AT SAVILLS
KKOWA@SAVILLS.PL

JAKUB ZIÓŁEK

MANAGING PARTNER AT CRIDO | LEGAL
JAKUB.ZIOLEK@CRIDO.PL

PAWEŁ TOŃSKI

MANAGING PARTNER AT CRIDO | TAX
PAWEL.TONSKI@CRIDO.PL

JACEK KAŁUŻNY

ASSOCIATE DIRECTOR
RESIDENTIAL CAPITAL MARKETS AT SAVILLS
JACEK.KALUZNY@SAVILLS.PL

JOANNA WINTER -SZYMAŃSKA

COUNSEL AT CRIDO | LEGAL
JOANNA.WINTER-SZYMANSKA@CRIDO.PL

MACIEJ DYBAŚ

PARTNER AT CRIDO | TAX
MACIEJ.DYBAS@CRIDO.PL

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