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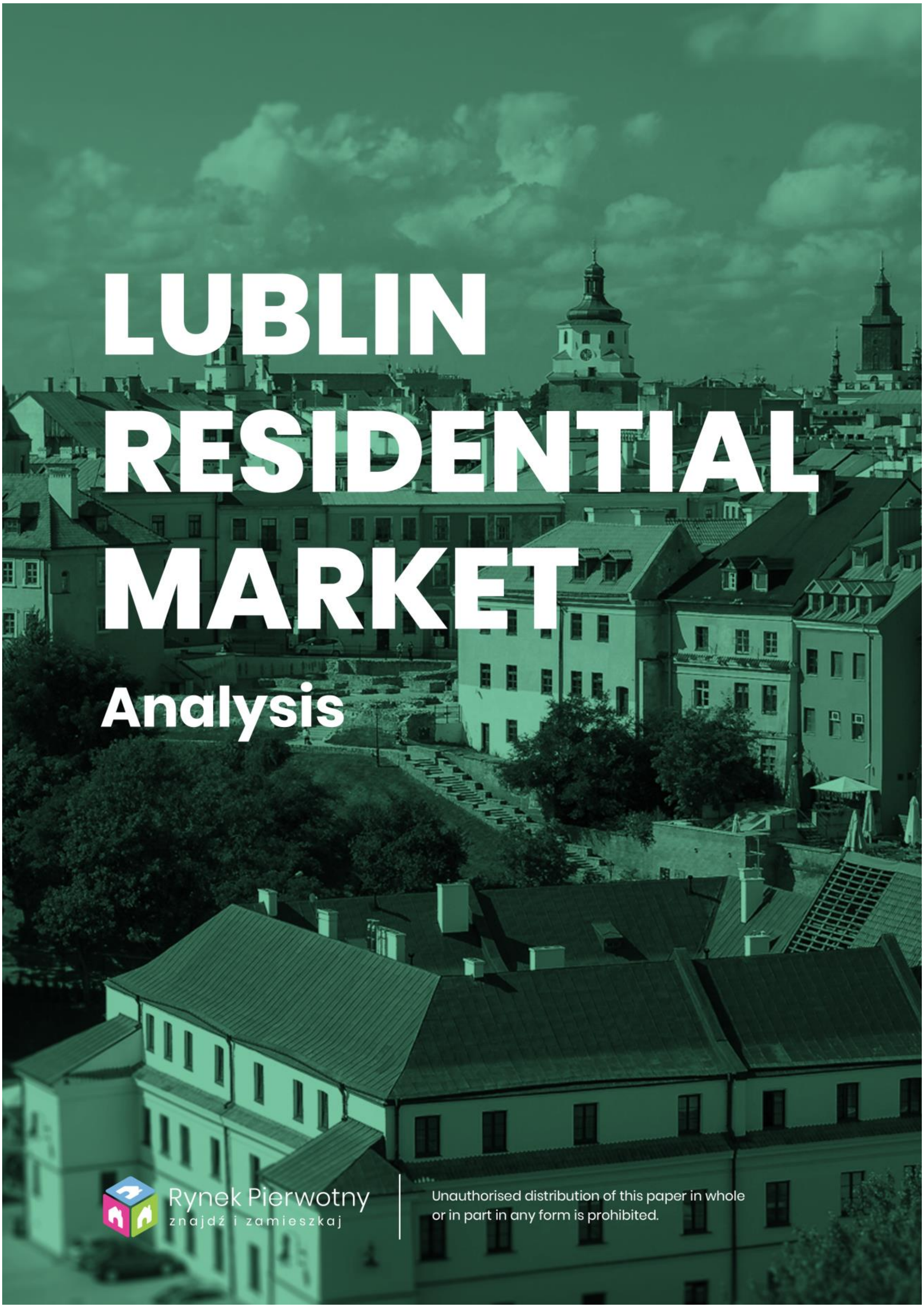

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Lublin – a short analysis of the local primary market

Lublin is currently one of the most promising real estate development markets. Data from Statistics Poland indicate that in 2017, developers from the Capital of the Lublin Region started the construction of 1,650 new flats. This result, higher by 8% than the year before, secured Lublin's 12th place amongst all Polish city counties. Thanks to the information collected by the site RynekPierwotny.pl, owing the biggest Polish offer database with new flats, it is possible to examine the offers of Lublin developers more carefully. Such an analysis of the current offer of developers and its recent changes is the subject of the first part of this report. In the second part, RynekPierwotny.pl analysts investigated long-term affordability changes of flats in Lublin. The third part presents an interesting comparison between Lublin and other large cities as to new flats' affordability.

1. The current offer of developers in Lublin and its recent changes

The current information from the RynekPierwotny.pl site indicates that a person looking for a new flat in Lublin at the end of the 2nd quarter of 2018 had 1,500 offers to choose from. Such a result meant a significant increase compared to the previous quarter, when there were only less than 1,200 offers (see the table below). It has to be emphasised that before that (in the 3rd quarter of 2017), the supply of new flats in Lublin amounted to 2,200. The number of active development projects was subject to less fluctuations. During the entire analysed period (the 3rd quarter of 2017 – the 2nd quarter of 2018), the number of investments offered by developers comprised between fifty and sixty.

The considerable changes of new flats' supply in Lublin can be explained by, among others, the realisation of the MdM (Flats for the Young) programme. Due to its intensive finish at the beginning of 2018, cheaper flats were sold out. Another important factor was a different rate of starting investments by Lublin developers. This phenomenon, together with quite a high demand, resulted in a considerable reduction of the offer already at the end of 2017. In the context of the fluctuations of Lublin developers' activity, it is worth referring to the information from Statistics Poland. According to its data, during the consecutive quarters of 2017, Lublin developers (entrepreneurs and companies), started constructing the following number of flats:

- ✓ the 1st quarter of 2017 – 835 flats
- ✓ the 2nd quarter of 2017 – 90 flats
- ✓ the 3rd quarter of 2017 – 476 flats
- ✓ the 4th quarter of 2017 – 249 flats

The significant increase in the amount of offers in the 2nd quarter of 2018 indicates that the number of new flats available in Lublin can return to the level of about 2,000. This is encouraged by a high market demand reinforced by, among others, a good labour market situation, increase in salaries and low NBP (the central bank of Poland) interest rates. It is also worth remembering that the developers operating in Lublin currently have less problems with finding convenient land than their competitors from Warsaw or Cracow.

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What is more, from January to March 2018, developers started construction of 753 more flats in the area of Lublin. Such a good result holds out the prospect of developers offering a wider choice in the following quarters.

Changes in the range of developers' offer in the area of Lublin (Q2 2017 – Q2 2018)		
Quarter ↓	The quantity of available developer flats	The quantity of investments offered by developers
Q2 2017	2,014	**50**
Q3 2017	**2,203**	**60**
Q4 2017	1,602	59
Q1 2018	**1,183**	55
Q2 2018	1,511	53

Source: data from the RynekPierwotny.pl site

Another interesting information concerns the average prices and square footage of the flats offered in Lublin from the 2nd quarter of 2017 to the 2nd quarter of 2018. During the entire analysed period, the average price per square metre of developer flats oscillated between PLN 5,250 and PLN 5,400 (see the table below). The increase of this average price from about PLN 5,250 (the 2nd qr. of 2017) to about PLN 5,400 (the 4th qr. of 2017 / the 1st qr. of 2018) per square metre was due to the cheaper flats being sold out (e.g. as a result of MdM). It is also worth remembering that a lot of Lubliners counting on the government allowance were completing the formalities connected with the purchase of flats from developers already at the end of 2017.

What is important, in the middle of 2018, the average offer price per square metre of flats on the Lublin primary market decreased to ca. PLN 5,300. This change, connected with re-expanding the offer of the cheapest flats, also resulted in a decrease in the average aggregate offer price of available flats (from PLN 347,432 in the 4th quarter of 2017 to PLN 303,067 in the 2nd quarter of 2018. The average surface area of flats offered by Lublin developers also returned to a similar level to that seen in the previous year. In the 2nd quarter of 2018, it amounted to 58.8 m^2. In the second half of 2017, it increased (to almost 63 m^2) as a result of smaller flats being sold out, as they are more popular among the clients of developers.

Changes in the average prices and square footage of new flats offered in the area of Lublin (Q2 2017 – Q2 2018)			
Quarter ↓	**The average offer price per square metre of developer flats**	**The average aggregate (offer) price of developer flats**	**The average square footage of offered developer flats**
Q2 2017	**PLN 5,252**	**PLN 300,108**	**58.6 m^2**
Q3 2017	PLN 5,368	PLN 325,796	59.2 m^2
Q4 2017	**PLN 5,418**	**PLN 347,432**	**62.8 m^2**
Q1 2018	PLN 5,378	PLN 331,805	62.7 m^2
Q2 2018	PLN 5,312	PLN 303,067	58.8 m^2

Source: data from the RynekPierwotny.pl site

The information on the chart below explains well the changes of the average price per square metre of new Lublin flats throughout the last year. It is clearly visible that in the second half of 2017, the share of

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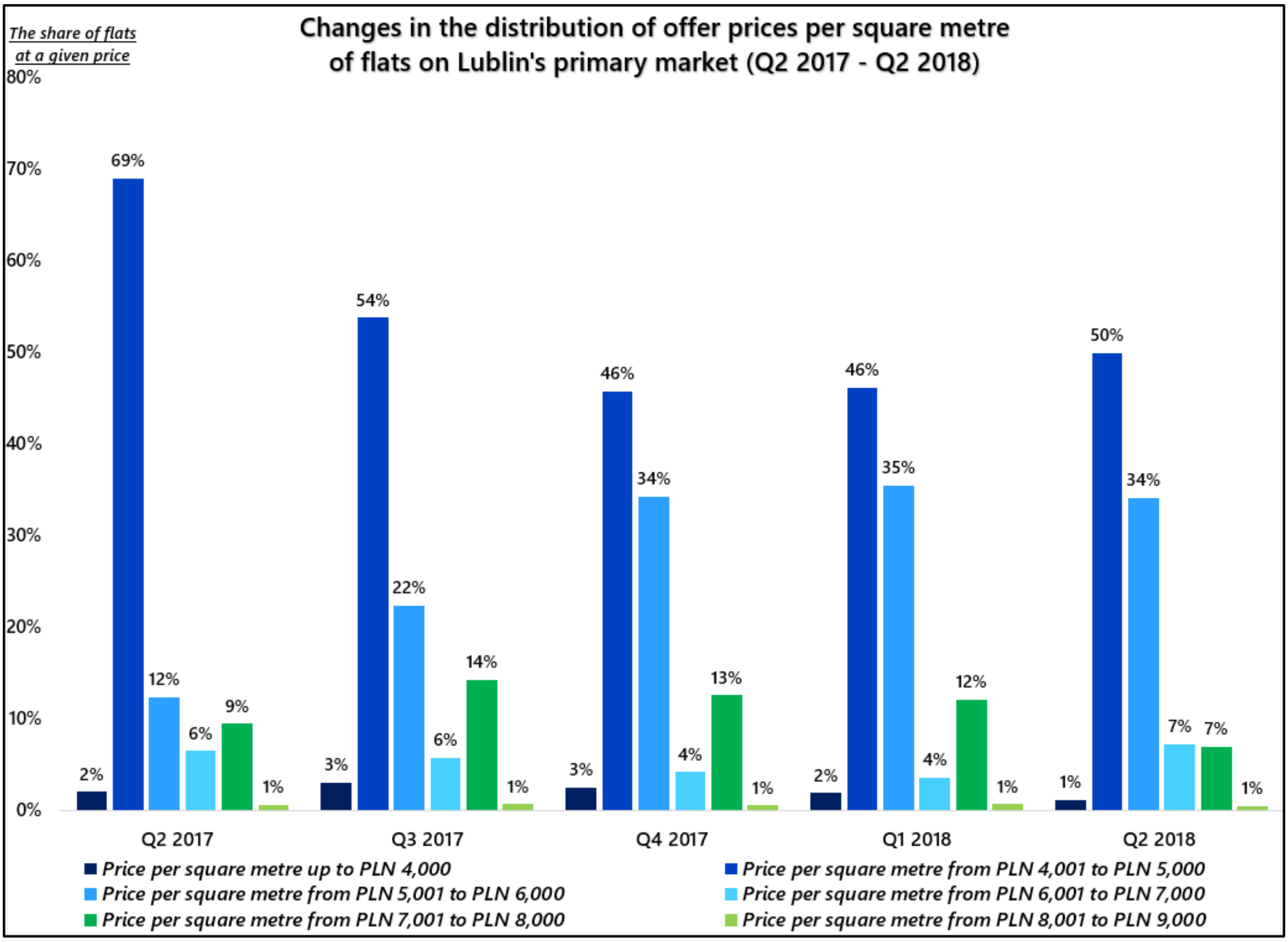
developer flats with the offer price of PLN 4,001 per m^2 – PLN 5,000 per m^2 on the Lublin market decreased considerably (the 2nd qr. of 2017 – 69%, the 4th qr. of 2017 – 46%).

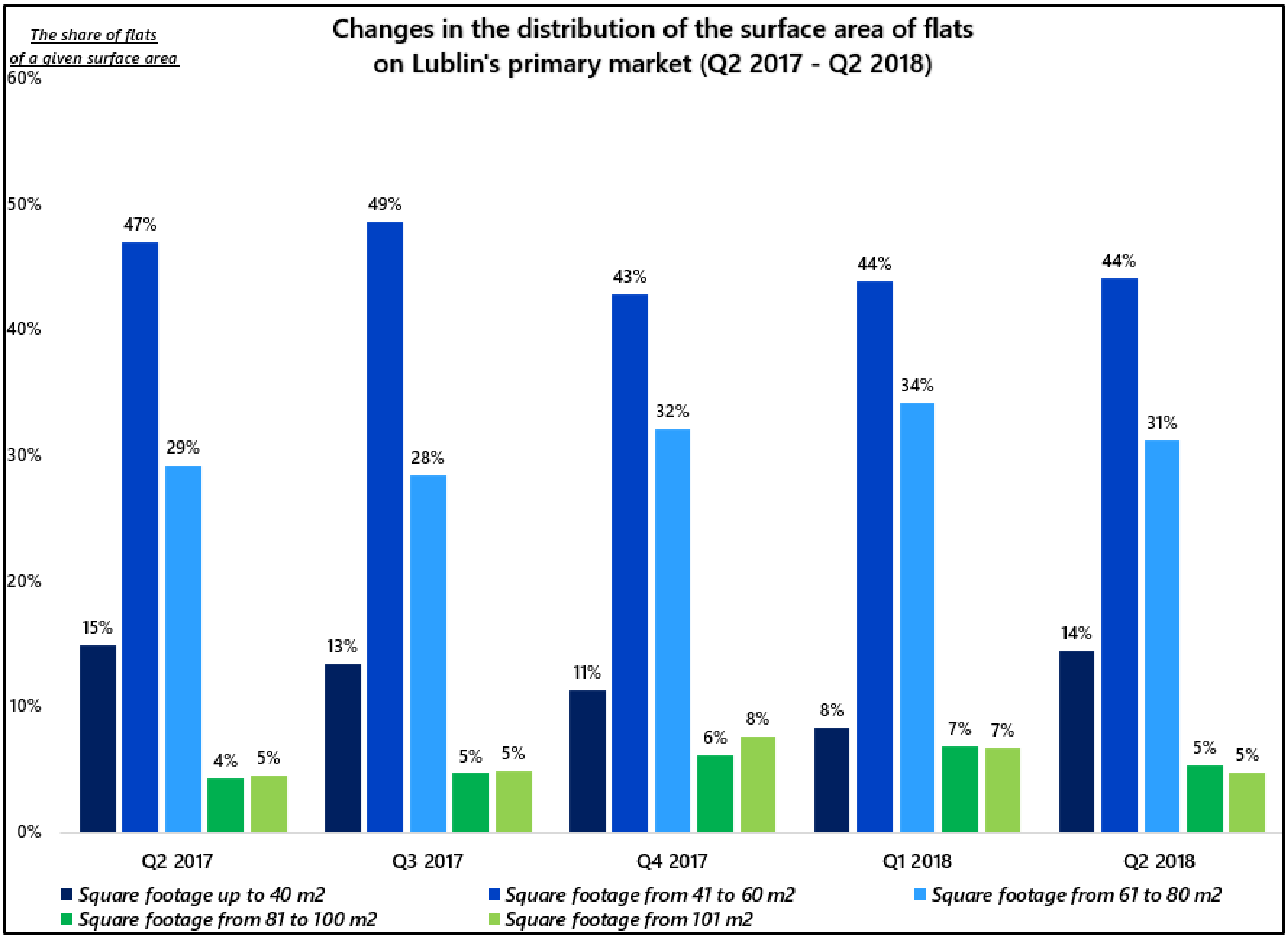
During the 2nd qr. of 2018, there was a gradual rebuild of the offer of such most popular flats and a rise in their market share to 50%. The increasing percentage of new flats for PLN 4,000 – 5,000 per square metre is good news for those interested in developers' offer. It is also notable that from the 4th qr. of 2017 to the 2nd qr. of 2018 there was a marked stabilisation of slightly more expensive flats' share in the market – with the offer price of PLN 5,001 – 6,000 per square metre (result: 34 – 35%). At the end of the 2nd qr. of 2018, the market importance of new flats in Lublin with a price other than PLN 4,000 – 6,000 per square metre was only marginal (see the chart below).



Source: data from the RynekPierwotny.pl site

In connection to the data in second table above, it is worth looking at the chart below. It explains why in the second half of 2017 the average square footage of flats offered by developers in Lublin increased. This change was connected with the most popular flats – with the surface area of 41 – 60 m^2 – being sold out. The market share of the flats decreased from 47% (the 2nd qr. of 2017) to 43% (the 4th qr. of 2017). During the next half a year, the developers did not succeed in increasing the percentage of analysed flats of 41 – 60 m^2 considerably (see the chart below). In the 2nd qr. of 2018, there was a noticeable increase in the share of the smallest flats up to 40 m^2 (result: 14% of the market offer). Many such compact flats can be bought from developers with a view of investing in tenancy. The interest in tenancy is encouraged by,

among others, an increase in the number of foreign students at Lublin universities (nowadays they constitute 10% of all students).



Source: data from the RynekPierwotny.pl site

2. Long-term changes in the affordability of flats in Lublin

Considering the prices of new flats, Lublin is competitive in comparison to such metropolis as Warsaw, Cracow, Wrocław, Poznań and Gdańsk. However, one has to realise that Lublin is characterised by a lower salary level than the mentioned cities. This is why the analysts from RynekPierwotny.pl compared the prices of flats (new or resale) in Lublin with salary information from the labour market.

The results in the table below show which square footage of a Lublin flat (of the average transaction price per square metre) one can afford with the amount of one average gross salary in the business sector. The calculations show that the analysed affordability rate increased between 2013 and 2016 (from 0.77 to 0.84 m^2 in case of new flats). However, after that the relation between salaries and flats' prices slightly deteriorated. Fortunately, the results for 2017 were considerably improved compared to those four years before (0.83 vs. 0.77 m^2 in case of new flats).

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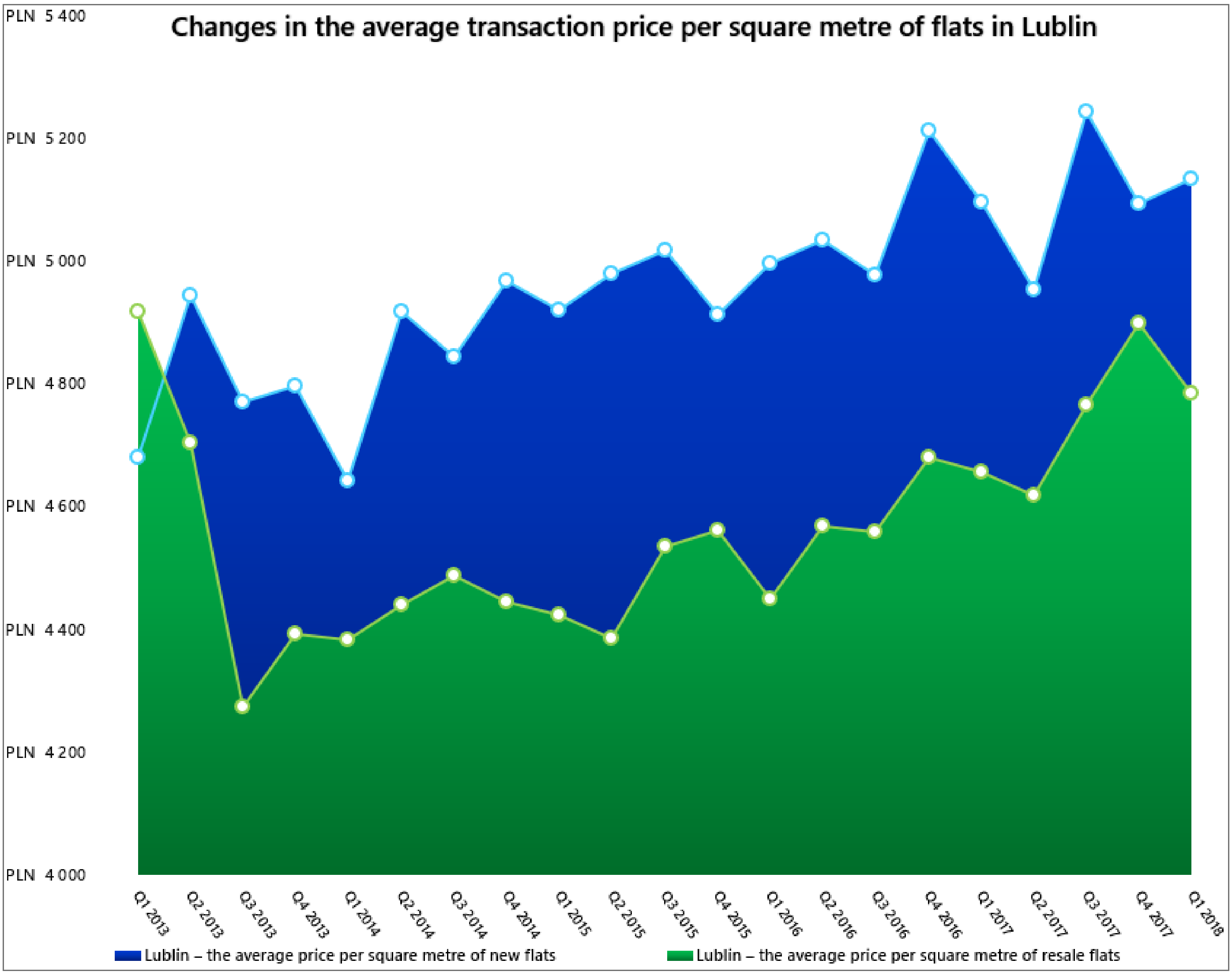
Changes in the affordability of new and resale flats in the area of Lublin (2013 - 2017)		
Year ↓	*The average surface area of a Lublin flat affordable with the amount of one average gross salary in the business sector*	
	New flats	Resale flats
2013	**0.77 m²**	**0.81 m²**
2014	**0.77 m²**	0.84 m²
2015	0.79 m²	0.87 m²
2016	**0.84 m²**	**0.93 m²**
2017	0.83 m²	0.89 m²

Source: own elaboration based on data from NBP and Statistics Poland / RynekPierwotny.pl

The slight deterioration of the statistical affordability of flats in the area of Lublin in 2017 was a result of further increases of prices. The increases are clearly visible on the chart below. It can be easily seen that the upward trend of flats' prices in Lublin began at the turn of 2013 and 2014. It was the time when positive motivators connected with, among others, economic upturn, increase in salaries, the prior decrease in NBP interest rates and falling unemployment could be observed.

The improvement of the situation on the local labour market was certainly crucial in the context of Lublin flats trade. Data of Statistics Poland indicate that between 2013 and 2017, the rate of unemployment registered in Lublin decreased from 10% to 6.2%. The falling unemployment stimulated increase in the average salary in the Lublin business sector (by 21% between the 1st qr. of 2013 and the 4th qr. of 2017).



Source: own elaboration based on data from NBP and Statistics Poland / RynekPierwotny.pl

3. Lublin primary market compared to other national markets (the affordability of flats)

Despite the minor decrease of flats' affordability in 2017, Lublin still stands out among many other larger cities in this respect, which is demonstrated by the data in the table below. The table, concerning the 4th qr. of 2017, contains information about the average transaction price per square metre of a new flat, the average gross salary in the business sector and the surface area of a developer flat affordable with the amount of this average salary.

Relevant calculations show that in the 4th qr. of 2017, Lublin was quite competitive in terms of the affordability of new flats (result: 0.82 m^2). The capital city of Lublin voivodship was beaten by the following cities: Katowice (1.00 m^2), Zielona Góra (0.98 m^2), Rzeszów (0.93 m^2) and Opole (0.92 m^2). One should not forget that the result in Katowice is slightly inaccurate since the city's extractive industry inflates the average salary. Another important observation concerns the cities beaten by Lublin in terms of new flats' affordability. These are the following urban centres: Białystok, Bydgoszcz, Cracow, Olsztyn, Poznań, Warsaw and Wrocław. The results concerning Warsaw and Cracow are particularly important, as these two

largest metropolis frequently attract young Lubliners. It is highly possible that the affordability of Lublin flats will improve in the future compared to the largest national metropolis. This is because the prices of flats on the leading residential markets (such as e.g. in Warsaw) are inflated by a relatively high investment demand. In Lublin, this phenomenon is much smaller in scale.

Comparison of relations between the prices of new flats and salaries in the biggest cities in the country (Q4 2017)			
City ↓	The average gross salary in the business sector	The average transaction price per square metre of new flats	The average surface area of a new flat affordable with the amount of one average gross salary in the business sector
Białystok	**PLN 3,730**	PLN 4,587	0.81 m^2
Bydgoszcz	PLN 3,987	PLN 5,177	0.77 m^2
Gdańsk	PLN 5,574	PLN 6,829	0.82 m^2
Katowice	PLN 5,272	PLN 5,266	**1.00 m^2**
Kielce	PLN 3,849	PLN 4,689	0.82 m^2
Cracow	PLN 4,921	PLN 6,755	**0.73 m^2**
Lublin	**PLN 4,198**	**PLN 5,093**	**0.82 m^2**
Łódź	PLN 4,256	PLN 5,148	0.83 m^2
Olsztyn	PLN 4,100	PLN 5,593	**0.73 m^2**
Opole	PLN 4,441	PLN 4,802	0.92 m^2
Poznań	PLN 5,054	PLN 6,382	0.79 m^2
Rzeszów	PLN 4,484	PLN 4,842	0.93 m^2
Szczecin	PLN 4,681	PLN 5,436	0.86 m^2
Warsaw	**PLN 5,774**	**PLN 7,751**	0.74 m^2
Wrocław	PLN 4,819	PLN 6,389	0.75 m^2
Zielona Góra	PLN 3,805	**PLN 3,873**	0.98 m^2

Source: own elaboration based on data from NBP and Statistics Poland / RynekPierwotny.pl

Summary

The above analysis provides a few conclusions positive for the Lublin market of new flats. The market is currently characterised by better affordability of flats than four years ago. Another positive sign is developers' flexibility of supply, who now recreate the offer of cheaper flats after they were sold out in the second half of 2017 and the beginning of 2018. The quite considerable investment activity on the Lublin primary market in the 1st qr. of 2018 indicates that the developers operating in Lublin so far have not experienced serious problems of land shortage.

Despite this positive situation, it seems unlikely for the Lublin primary market to avoid price increase. This is because the developers operating in Lublin, like other investors from the rest of the country, are affected by increase in the price of building materials and labour costs. Together with the prices of new flats, those of resale flats will also increase. However, the higher prices should be compensated by an increase in salaries. Maintaining the high affordability level of flats in Lublin seems crucial in terms of the city's future, as a moderate cost of flats is a factor encouraging young workers to stay in Lublin. This is why it should be a long-term priority to improve the housing stock and simultaneously create conditions for a faster increase in salaries (e.g. by developing more profitable branches of industry and services).

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