European Commission

European
Construction Sector
Observatory

Policy measure fact sheet
Poland
Apartments for Young People
Thematic Objective 1

March 2016

Implementing body:	Polish State development bank (Bank *Gospodarstwa Krajowego*) and the Ministry of Infrastructure and Regional Development
Key features & Objectives:	State aid scheme offering young people financial aid in the form of co-financing of a mortgage for a first apartment
Implementation date:	January 2014
Targeted beneficiaries:	Households: families or single people below 35 years of age (except for families with three and more children where the parents can be older than 35 years old)
Targeted sub-sectors:	Construction products Residential buildings Financial instruments for the construction sector
Budget (EUR):	EUR 143m (PLN 600m) in 2014 EUR 170m (PLN 715m) in 2015 EUR 173m (PLN 730m) in 2016 EUR 177m (PLN 746m) in 2017 EUR 181m (PLN 762m) in 2018 Source: Polish national budget

In a nutshell

Polish real estate market was severely hit by the global financial crisis with 44% drop of the operational surplus in 2008 and only 66% recovery since pre-crisis level by 2012. Mid-2013 saw the signs of emerging from the crisis as low interest rates prompted people with savings to look for a higher rate of return in the real estate market. Additional stimulus came from buyers delaying the purchase of a home since 2009. Coupled with historically motivated housing shortage in Poland (estimated to be around 1.4-1.5 million dwellings in 2011)[1], the demand on the construction market is starting to recover since the crisis. However, the house prices, despite some grow in the last year, are still lower than pre-crisis level.

In the environment of very low interest rates and remembering some exuberant tendencies in the pre-crisis mortgage lending of Polish banks, the Polish financial supervisor imposed stricter mortgage lending criteria. Would-be mortgagees need to have a significant cash input when borrowing in order to diminish mortgage lending risk. In parallel and in order to help young people meet this cash input requirement, the Polish government created in 2014 the *Mieszkanie dla Młodych* also called MdM support scheme (**Apartment for Young People**). It is a financial support measure involving co-financing of a mortgage and, in some cases, early retirement of debt.

Up until the second part of 2015, only a moderate uptake of the MdM could be observed. This may be owed to low amounts of co-financing compared to housing prices and relatively few apartments being cheap enough to qualify for support in the biggest Polish cities. In mid-2015, the legal basis of the MdM was amended to include secondary market housing and more family-friendly provisions. By September 2015, the outcome of the amendment remains to be seen. While positive changes are generally expected by the industry, a long-term vision in terms of policy support to access housing in the country is needed to sustain the impacts of the policy.

General description

The MdM is a policy initiative of the Polish government providing financial support to young people in the acquisition of their first real estate. The measure is regulated by the *Ustawa z dnia 27 września 2013 r. o pomocy państwa w nabyciu pierwszego mieszkania przez młodych ludzi* (Law of 27 September 2013 on the **State Aid in the purchase of a first home by young people**). The law was amended in September 2015. The programme has been operational since January 2014 and is set to run until 2018. Its total budget amounts to circa **EUR 850 million**.

The policy has a dual goal. Firstly, it supports young people in obtaining a mortgage on their first property. Secondly, it seeks to stimulate the supply of new housing as a response to the housing shortage in Poland. As regards the first goal of the policy, prior to the crisis, banks in Poland granted mortgages with a Loan-to-

Value ratio (LTV)[2] of up to 130%. Subsequently, the Polish financial supervisor (*Komisja Nadzoru Finansowego*, KNF) imposed a limit on the amount of the mortgages granted. In 2015, a mortgagee is obliged to have 10% of the value of the property price in cash. Consequently, the mortgage cannot exceed 90% of the property value. These limits will reach 20% and 80% respectively as from 2017. While the rationale is to shield households from excessive indebtedness, it also prevents young people, who may not have sufficient savings, from accessing a mortgage.

For the above reason, the MdM support takes the form of the **co-financing of a mortgage** taken in one of the 14 banks listed in the law. The nature of support represents a change with respect to the previous programme *Rodzina na Swoim* (RnS), operational in 2007-2012. The RnS offered governmental co-financing of interest rate on a mortgage during the first 8 years of repayment. As illustrated in Table 1 below, interest in RnS intensified in 2009 when the global financial crisis made access to credit more challenging. Given this, there is a potential danger that, starting from 2017-2018, when the interest subsidy is no longer be in place, the amount of the instalment can significantly increase, burdening household finances of young Poles. Some financial analysts expect that a mortgage instalment can then increase by 40%[3]. The PAD takes the view that, since the RnS finances only debt servicing and only for a definite period, the MdM is a more advantageous programme.

Table 1: Number and value of mortgage contracts associated with the interest co-financing within the "Rodzina na Swoim"

Year	Number of mortgages	Value of mortgages disbursed in a given year (mPLN)	Value of mortgages disbursed in a given year (mEUR)
2007	4,001	434.7	114.9
2008	6,645	852.8	243.7
2009	30,882	5,417.6	1254.2
2010	43,120	8,074.3	2021.8
2011	51,328	10,249.3	2493.7
2012	45,792	7,939.3	1898.3
2013	10,592	2,004.6	477.7
Total	**192,360**	**34,972.6**	**8504.3**

Source: BGK, 2015.

As far as the second goal of the MdM is concerned, the accessibility of housing in Poland is still lacking. World War II left Polish infrastructure and housing in a dramatic state. The Communist regime dealt with the situation by building the entire neighbourhoods with blocks of flats. These buildings, mostly consisting of very small apartments, are now approaching end of life. According to the PAD, **to replace this stock, Poland would need additional 50,000 new housing units** (i.e. an apartment or a family house) every year until 2100, on top of what is already built yearly. Currently, as estimated by stakeholders, about 110-120,000 new housing units are built per year in Poland, about half of which are houses built by private individuals, while the other half is built largely by developers. Overall, the housing deficit[4] in Poland was estimated by OECD at ranging between 1.5 million and 1.8 million housing units in 2011[5]. The PAD takes the view that, if accounted for emigration from Poland, this number could be closer to 700,000 – 1 million.

The MdM scheme supports the **mortgagees who are no more than 35 years old and do not own any other real estate**. Following the 2015 amendment to the MdM law, families with at least three children are exempted from satisfying these conditions. The amount of co-financing is calculated on the basis of a **base amount** equivalent to the estimated cost of construction of a 50m^2 square apartment (or 65m^2 in the case of families with at least three children) in a given commune. At the same time, the programme sets limits to the price of the apartments eligible for the programme. Thus, the maximum price of eligible dwellings is calculating by applying to the cost of the 1m^2 of useful habitable area set by the relevant municipality a factor of 1.1 (for new constructed dwellings) or 0.9 (for existing dwellings)[6].

Apart from the co-financing, the MdM scheme may **co-finance early retirement of debt**. This applies to people (single or married) who have had a third (or further) child within the 5 years from purchasing the housing unit. The amount is equal to 5% of the initial co-financing (*for details on this aspect of the MDM scheme, please see the following paragraphs*).

Table 2: Changes in the MdM scheme following the amendments to the law in 2015

Family status	Co-financing before reform	Co-financing after reform	Other changes
Childless	10%	10%	Finances reconstruction or adaptation, not just construction.
1 child	15%	15%	
2 children	15%	20%	
3 or more children	15%	30%	Can have their **own real estate** before
			Co-financing calculated on a **larger base**

Source: PwC, Polish Association of Developers, BGK, 2015.

Overall, the 2015 amendment to the law brought above a series of changes aiming to increase the uptake by larger families. This is a response to a moderate 2014 uptake, as described in the following section.

Expected or achieved results

By 20 September 2015, **the mortgages co-financed by the scheme amounted to PLN 5.2 billion** (EUR 1.2 billion) **and the total value of the real estate purchased with the aid of the measure was PLN 6.5 billion** (EUR 1.5 billion).

As illustrated in Table 3 below, in 2014, only PLN 207.2m (EUR 49.3m) out of PLN 600m (EUR 142.9m) allocated to the programme that year were used. While the contracting by 20 September 2015 (for the whole year 2015) was already higher than in the whole of 2014, it nonetheless did not reach even half of the amount allocated for 2015 (PLN 715m, that is EUR 170.3m).

Table 3: Loan contracts entered into the "Apartment for the Young" scheme by disbursement year (as of 20 September 2015)

Year	Number of contracts	Amount contracted (mPLN)	Amount contracted (mEUR)
2014	9,141	207,2	49.7
2015	14,164	329,2	79.0
2016	3,710	89,3	21.4
2017	343	8,1	1.9
2018	1	26,9	6.5
Total	**27,359**	**633,8**	**152.1**

Source: Ministry of Infrastructure, BGK, 2015.

The vast majority (97.5%) of the contracts dealt with apartments. The average apartment supported by the programme had a surface of 53.1m^2 and a cost of PLN 234,600 (EUR 55,890). In the case of a house, it was 85.9m^2 and PLN **313,000** (EUR 74,570) respectively[7]. This reveals that the MdM helped finance small and cheap apartments.

Comparing the average price above with the prices of apartments in the largest Polish cities raises questions as to the impact of the programme. For instance, the PAD notes that, before the 2015 reform, the average amount of support was PLN 22,000 (EUR 5,240). Consequently, on average, the support would have contributed less than 10% of the price of the apartment and even less so for a house.

In Warsaw, the average support amounted to PLN 38,900 (EUR 9,270). Bearing in mind that the average transactional price of a square metre of an apartment in Warsaw in the first quarter of 2015 was PLN 7,396 (EUR 1,760)[8], the average co-financing would have funded just around 10% of a price of an average apartment in Warsaw.

23.1% of the beneficiaries (6,334 mortgagees) had at least one child. Since the scheme supported mostly childless people, this raises a question as to whether it is sufficiently family-friendly. The 2015 amendment also attempted to address this matter.

Perspectives and lessons learned

From a **consumer perspective**, the scheme recognises the need not only to facilitate access to any lodging, but also to help families improve their living conditions by moving to a larger place. Following the 2015 amendment to the law, families with three or more children can already have their own real estate when seeking MdM support. Under the previous criteria, beneficiaries could not be the owners of prior property. This often excluded from the programme large families, who usually already owned their home. Moreover, apartments purchased in the secondary market are now included in the MdM scope. These apartments are on average cheaper and often located closer to city centres, shops, schools, and public transport lines. While they may need refurbishment, they are also already fitted with floors, doors and basic amenities, which is often not the case of new apartments. The extension of the scope creates a real hope for the increase in the uptake. This is evidenced by the popularity of secondary market housing in the previous programme (RnS).

From a **government perspective**, legal organisation of the MdM may undermine the efficiency of the programme. The MdM is financed from a "budget reserve", a certain amount carved out of each year's annual budget and dedicated to the particular purpose: i.e. co-financing mortgages in this case. According to the Polish Public Finance Law, if the total amount of a budget reserve is not used within an index year, it cannot be transferred onto the following year, but is returned to the central budget. Given the relatively low uptake of 2014, PLN 400m (out of PLN 600m) (EUR 95m) must hence be returned. Allowing for transferring funds onto the following year would prevent losing the funding.

The eligibility requirements, set by the government, have pushed developers to adapttheir offer to the MdM price ceiling, notably by building less luxurious apartments that would fit within the price range.

The amendments to the programme are likely to have a positive effect on the **specialised services providers** in the construction sector. Thus, large families, by moving to a house, stimulate small construction companies and product manufacturers.

From the **industry perspective**, the PAD takes the view that the price limits imposed on the housing are too low. One reason argued is that the construction costs used to calculate the price of the apartments are too low and do not reflect the actual market costs. As a consequence, price limit for the dwellings eligible for the programme was lower than a market price (24.7% lower in Warsaw, 23.4% lower in Krakow in 2014[9]). According to the PAD, this situation resulted, prior to the reform, in the lack of housing units eligible for MdM support in the largest Polish cities and, linked underutilisation of the funds available for the programme. For example, prior to the reform, the PAD estimated that 8% of all new apartments in Warsaw were eligible, as compared to only 3% in Krakow. This proportion was much higher in cheaper big cities like Lodz and the Tricity urban area (Gdańsk, Sopot, Gdynia), where 30-40% of the new apartments were eligible, according to the PAD.

The relatively few apartments in the biggest cities that were eligible for support were often located in new neighbourhoods far away from city centres. Not only was this inconvenient commute-wise, but it also threatened a potential further extension of the largest Polish cities that are already stretched, like Warsaw.

The above experience brought several lessons learned. First, the amount of support was recalculated and more new apartments are nowadays expected to become eligible. However, the rise will not necessarily be spectacular. For instance, the PAD estimates that in Warsaw the proportion of eligible new apartments would grow from 8% to 12%.

Finally, the industry would like to see more legal certainty. The **MdM scheme was launched in 2014 and is envisaged to last 5 years**, i.e. until 2019. Nowadays, there is no information as to whether another programme will follow, and if yes, what would be its conditions and duration. The PAD quotes such **lack of continuity and predictability** as a weakness. The industry organisation observed that the whole investment process takes four years; starting from the purchase of a plot until the apartment is ready to use. If there is no visibility of the support scheme, the developers may have difficulty in making decisions on the number and on the quality of the apartments whose building needs to now in order to be finished in four years. Also, even if a following scheme is in place, the conditions can change during its duration, as it was the case with the recent amendment to the MdM law. Consequently, a longer-range planning and more legal certainty are welcome by the construction industry.

Comparison with other analytical sources

This Fact Sheet concurs with other analytical sources:

- Country Fact Sheet Poland[10] in the sections:
  - Access to housing;
  - Access to finance;
  - National & Regional Policy & Regulatory Framework;
  - Outlook.
- Country-specific recommendations for Poland[11], Section 1: Scene Setter: Economic Situation and Outlook, Box 1.1 on the Investment challenges:
  - "the low private investment–to-GDP ratio... partly reflects lower housing investment";
  - "Investment in equipment and construction is relatively high in Poland, but investment in dwellings is low".

Endnotes

[1] The Key Issues, Objectives and Directions of the Programme for the Development of the Residential Construction Sector until 2020, Polish Sejm, 2011

[2] LTV is a ratio of the mortgage to the appraised value of a property.

[3] http://www.bankier.pl/wiadomosc/Rodzina-na-swoim-tykajaca-bomba-3285530.html

[4] Housing deficit is the number of missing housing units.

[5] OECD Urban Policy Reviews, Poland 2011. http://www.oecd-ilibrary.org/urban-rural-and-regional-development/oecd-urban-policy-reviews-poland-2011_9789264097834-en

[6] Mieszkanie Dla Młody, Raport o Prognozowanym Niewykorzystaniu Środków Przeznaczonych na Program Mdm w 2014 Roku, Poland, 2015.

[7] BGK, 2015.

[8] Polish Central Bank, http://www.nbp.pl/publikacje/rynek_nieruchomosci/ceny_mieszkan_03_2015.pdf

[9] Mieszkanie Dla Młody, Raport o Prognozowanym Niewykorzystaniu Środków Przeznaczonych na Program Mdm w 2014 Roku, Poland, 2015.

[10] European Construction Sector Observatory, Country Fact Sheet Poland, February 2016, http://ec.europa.eu/growth/sectors/construction/observatory/index_en.htm

[11] Commission Staff Working Document, Country Profile Poland 2016, http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_poland_en.pdf