Financialisation of the system of provision applied to housing in Poland

Piotr Lis
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Abstract
The liberalisation of the housing sector, given the macroeconomic stabilisation in the country, influenced the development of a housing loan as a form of financing the purchase of dwellings in Poland, with large growth dynamics of the household debt since the beginning of this century. A growth in financialisation resulted partly from the fact that newly established households preferred in particular the ownership right, especially due to its limited scope in the period of the centrally planned economy. Furthermore, this growth came as a result of the fact that the segment of dwellings for rent – both private and social – did not work well. Significant commodification of dwellings, with a residual character of social housing and marginal private rental, as well as higher social stratification are the features of the contemporary system of provision for housing in Poland.

The financialisation of the housing sphere in Poland took place as a result of disparity in interests rates, favourable foreign exchange rate, using housing loans raised in Swiss francs, with growing importance of property developers housing investment mechanism. This process could take place due to the fact that there was no alternative (in relation to commercial banking) finance mechanism which households could use to fund their housing investments, there were delayed regulations and actions introduced by the state as well as an ineffective information policy targeted at the citizens. Consequently, the availability of money and its low, current cost caused a relatively dynamic growth in
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dwelling prices, despite unfavourable long-term conditions for borrowers (foreign exchange risk, interest rate risk). Reversing the price trend on the housing market resulted in limitations in the availability of housing finance, a growth in the cost of such finance, and consequently a long-lasting limitation to the possibility of satisfying housing needs by a vast group of the society.

**Key words:** housing, housing policy in Poland, system of provision for housing, financialisation of the housing.

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1. Introduction

The transformation of the political and economic system in Poland from the centrally planned economy into the market economy, formally initiated in 1989, converged with a dynamic process of globalisation based on the technological advancement and innovations as well as the process of liberalisation associated with the fact that the state began to withdraw from various spheres of the economy. The convergence of these two processes, accompanied by considerable costs of transition and social and economic costs, led to changes in development of the Polish society. The processes of decentralisation and privatisation constituted key conditions for the creation of a new system of provision for housing in Poland, functioning in the market economy. A sudden focus on marketisation in the housing sector clashed with the nature of housing which included an important social element provided for – to some degree – by the state (a certain level of provision).

In Poland, considerable housing deprivation, i.e. living in overpopulated dwellings with at least one of the following problems: a lack of toilet or bathroom, leaky roof or lack of adequate lighting, affected over 10% of inhabitants in 2013, with an average of 5.2% in the EU. According to the Eurostat data, more than 44.8% of inhabitants lived in overpopulated dwellings, whereas 10.3% of households spent at least 40% of their equivalent disposable income on housing needs (with an average of 17.4% and 11% in the EU). This high level of housing deprivation and the high rate of overpopulation influences the chance of young people to gain the education that is adequate to their abilities and aspirations, which may result in a limitation in acquiring proper employment. With limited financial possibilities of the state (the government and local government units) and a lack of the common vision of housing development as well as the housing strategy, the above housing problems remain unresolved in the stable macroeconomic environment (low inflation, systematic economic growth, fiscal stability). A part of the society aimed at handling these housing issues by obtaining their own housing stock with the use of the financial system. Housing ownership in Poland has become a synonym of a professional success. Almost 84% of the population owns their own housing stock, including over 10% of the population with mortgage loans (Eurostat data at the end of 2013). The housing loan debt of households grew in Poland
from 0.24% of GDP at the end of 1996 to 20.49% of GDP at the end of 2013. Financing the unsatisfied housing needs with debt capital entails, however, some costs and risks. A large part of this debt was denominated in foreign currency, mainly in Swiss franc, with a floating interest rate, without an own contribution, for the period of 30 years (a possibility of free borrowing of housing loans in foreign currency until 2012).

The main aim of this paper is to investigate structural links between financialisation and the real economy in Poland with a specific reference to housing. To achieve this aim, the following tasks were set and realized in particular parts of this study. At the beginning of the study the author has analysed the housing stock, the ownership structure and the changes in the stock. Particular emphasis has been put in this section on the significance of the processes of decentralization and privatization as core determinants of provision of housing in Poland. The following part presents a description of three fundamental stages of the investment process: residential development, building and housing consumption. The part concerning residential development contains an assessment of land-use regulations. Spatial planning created favourable conditions for such a dynamic development of financialisation of housing. Furthermore, in the part devoted to housing construction, the author has evaluated construction processes, particularly the structure and dynamics of housing construction, types of housing investment mechanisms, the financial condition of the construction sector and labour in the construction industry. This part also depicts such investment mechanisms applied to housing markets as: self-built housing investment mechanism, property developers housing investment mechanism, cooperative housing investment mechanism, social housing mechanism, gmina’s1 housing investment mechanism and rental housing investment mechanism. It shall be noted that the predominant private housing investment mechanism and property developers housing investment mechanism are associated above all with the creation of owner-occupied dwellings, whereas the other mechanisms concern

1 Gmina - a self-governing community and its respective territory. The inhabitants of every gmina make up a self-governing community by virtue of law. Every gmina performs public activities for itself and on its own responsibility. The scope of gminas’ activities includes all public issues of local importance, unrestricted by statutes for other entities. Satisfying collective needs of a community is the gmina’s own task. Gminas have legal personality. The independence of a gmina is subject to judicial protection (Law of 8 March 1990 on gmina self-government, uniform text, Journal of Laws of 2013 item 594 with amendments).
the creation of dwellings for rent. In the part concerning housing consumption the author has analysed demographic changes, evaluated the scope of housing needs and analysed households’ abilities to purchase dwellings. Next, the role of financialisation has been analysed and assessed from the perspective of housing loans, institutions which grant them and regulations connected with these loans. Each of the stages is followed by an indication of the role of the state and its instruments of direct and indirect influence on the housing sphere.

Various comparative and descriptive research methods were used in this paper, in particular the SOP approach from the perspective of housing developed by Bayliss, Fine, Roberston [2013]. There is a need to determine the way in which financialisation affects the systems of provision (SOP) for the delivery of housing in Poland and the consequent outcomes for equity. A system of provision (SOP) is defined as an array and sequence of activities, technologies and institutional arrangements that come together in the provision of a particular product or service and which dovetail with the cultures attached to housing. SOP analysis for housing will incorporate the role of need and demand, how they are constructed materially and culturally, as well as the tensions that arise across them as a result. This involves, especially in the Polish context, consideration of the supply of both rented and owner-occupied properties, the changes in the housing stock (investment and depreciation), the spatial structure of provision and the financial mechanisms by which people access housing. Different components of the sop interact to create specific outcomes, which affect the affordability, accessibility and quality of the housing stock. There is a need to identify the structural and contextual determinants of the systems that lead to such outcomes. These determinants include among all history, income and distribution, government policy, infrastructure, industry structure, labour, ownership structure, finance access. They may be analysed in terms of four different perspectives: processes, structure, participants and mutual relations among them (See more: Bayliss, Fine, Roberston, 2014, p.13).To complete main aim, the author has conducted an analysis of the system of provision for housing in Poland for the years 1989-2011/1q.2014. The initial date of the research is connected with the beginning of political and economic
transformations in Poland and the closing date stems from the availability of statistical data. Poland has been a member of the European Union since 1 May, 2004.

This paper is based on interviews, data, reports or information obtained from National Central Statistical Office, Ministry of Construction, National Central Bank, Polish Financial Supervision Authority, Building Congress, Warsaw School of Economics, Homeless Foundation, Polish Housing Society, Polish Chamber of Commerce of Low Cost Social Housing, Real Estate and Investment Department at the Poznan University of Economics, “Domy Spółdzielcze” Journal.

2. The structure of and changes in the housing stock

2.1. Ownership structure of the housing stock

The Constitution of the Republic of Poland of 17 March 1921 regulated the issue of ownership security, indicated the conditions for limiting this right (higher utility in exchange for reasonable compensation, similarly to the procedure following 1989). The transitions of the economic and political system, which took place in Poland in 1945, resulted in the liquidation of the existing legal status. The Constitution of the People’s Republic of Poland of 22 July 1952 divided property into certain types and forms which would suit political needs. Partly nationalisation became a means of increasing public property at the expense of private property. The ultimate political and economic goal was to transform private property into social, state or cooperative property, yet it failed to happen in Poland [Belniak, 2001, p. 17, Zatęczna, 2010, p. 201]. As a result of the process of transformation of the political and economic system in Poland, preceded by the processes of decentralisation and privatisation, the ownership structure of the housing stock was changed. Due to the fact that various ownership titles can belong to different housing SOPs, it seems justified to discuss those changes.

A general limitation of ownership rights in Poland between 1945 and 1989 inhibited the development of market mechanisms in the real estate sector, instilled a lack of respect for the common good into people’s consciousness and gave rise to a demanding attitude of
the citizens towards the state. 2 Entering the period of economic transformations, Polish society expected an intervention from the state in a degree that would be necessary to satisfy basic social needs, including the housing. In the years 1945-1989 (the period of the centrally-governed economy), the significance of housing in shaping the material and social environment was particularly highlighted. Satisfying housing needs was supposed to be the subject of social cooperation. The market economy imposed a change in the approach of the state and the society to the housing economy and housing policy. The changes in the political system did not exempt the state from the obligation to shape the housing policy, yet the attempts made after 1990 did not bring about the housing strategy worked out in Poland [Foryś, 2011, p. 104].

Table 1 presents a comparison of the household structure of dwellings in terms of ownership rights between 1988 and 2011. In 1988 almost 30% of households were lessees 3, 13.3% sublessees 4, 18.1% resided in cooperative tenant dwellings 5, and only 39% of households possessed an ownership right 6 or a cooperative ownership right 7 [GUS, 1996]. In

---

2 It shall be mentioned that in the interwar period private ownership was predominant and amounted to 96% of dwellings in 1921 [Andrzejewski, 1977, p. 87].

3 A lease of a dwelling is a situation in which a family household leases a dwelling from its owner (i.e. a natural person, gmina, the state, housing cooperative, enterprise) or the main user – a person who has another legal title to the premises in question (the main tenant – a member of the cooperative, the main lessee in a municipal, state or enterprise dwelling) on the basis of a written or verbal lease (or lending) agreement [GUS, EU-SILC, 2011].

4 Sublease of a dwelling means that a family household subleases a part of a dwelling (usually a room) from its owner or main user, on the basis of a written or verbal lease (or lending) agreement. The family household of the lessees or sublessees may: - pay for lease/sublease according to market prices, i.e. in accordance with current market charges for a similar dwelling in the same neighbourhood, - pay for lease/sublease less than market prices, i.e. lower than the prices for a similar dwelling in the same neighbourhood, e.g. a dwelling leased from one’s own family, friends, a company dwelling, - not pay for lease/sublease: municipal, welfare, company dwellings [GUS, Metodologia badania EU-SILC, 2011].

5 A cooperative tenant right to premises is an inalienable right to reside: it cannot be sold, donated, inherited or lost in the course of execution [GUS, EU-SILC, 2011].

6 An ownership right means the possession of a dwelling certified with a notarial deed by one member of a given family household or a few members under the principle of joint ownership (e.g. spouses are joint owners of a dwelling [GUS, Metodologia badania EU-SILC, 2011].

7 A cooperative ownership right to premises is a limited, transferable property law: premises may be sold, donated, inherited, leased/lend, but also lost in the course of execution. A cooperative ownership right to premises means that a person is entitled to premises, but the building and the land under it belong to the housing cooperative. Thus, it is a “limited property law” which refers to residential premises and is not assigned from the real estate. A real estate register might be started for the cooperative ownership right to premises, which makes it possible to raise a mortgage [GUS, EU-SILC, 2011].
2011, almost 82% of family households\(^8\) possessed an ownership right or a cooperative ownership right, 5.5% leased a dwellings based on market principles, 8.4% leased a dwelling within the municipal, social or company housing stock, 1.3% possessed another legal title to premises\(^9\) (GUS, 2014, p. 52). Mortgaged family households possessing an ownership title or a cooperative ownership right to a dwelling constituted 8.9% of all family households and approximately 11% of those which owned a dwelling. The degree of the family households’ debt in Poland is not high compared to other European Union states, yet the dynamics of changes in this aspect is extremely rapid. It has to be stressed clearly that the process of financialisation of housing would not have been possible had it not been for such considerable changes in the ownership structure of the housing stock.

Table 1. The structure of households and family households in terms of dwellings grouped according to the type of the legal title to occupied dwellings in the years 1988-2011 (in %)

<table>
<thead>
<tr>
<th>Legal title</th>
<th>NSP 1988</th>
<th>EU-SILC 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership right to a dwelling</td>
<td>35,3</td>
<td>81,6</td>
</tr>
<tr>
<td>Cooperative ownership right to premises</td>
<td>3,4</td>
<td></td>
</tr>
<tr>
<td>Cooperative tenant right to premises</td>
<td>18,1</td>
<td>3,2</td>
</tr>
<tr>
<td>Lease</td>
<td>29,9</td>
<td>15,2</td>
</tr>
<tr>
<td>Sublease and other</td>
<td>13,3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Based on the CSO data [1996, 2014].

Housing stock\(^{10}\) amounted to 13.5 million inhabited and uninhabited dwellings in 2011, with a total floor area of 946.3 million m\(^2\) and 49.9 million rooms. Compared to 2002,

---

\(^8\) Family households are households specified on the basis of kinship (family ties to some degree), adoption or marriage. Family households constituted 89.1% of households specified in NSP 2011.

\(^9\) Another legal title to a dwelling means free inhabitancy, i.e. a family household does not pay for lease/sublease: due to kinship with the owner or main user of a dwelling, due to annuity, taking care of ill children or the home, in return for tutoring, without a legal title as the so-called “squatters” (GUS, EU-SILC, 2011).

\(^{10}\) The housing stock is defined as permanently inhabited and uninhabited dwellings intended for permanent residence. Due to limited data, the above definition may be applied to NSP 2002 and NSP 2011, whereas NSP 1988 is based only on inhabited dwellings. It has been assumed for NSP 2011 that 60% of uninhabited dwellings is rendered possible to be inhabited. The other uninhabited dwellings are the ones used exclusively for conducting business activities or those intended to be demolished. In NSP 2002 these dwellings constituted 65%.
the housing stock had increased by almost 8%, including ca. 9% in cities and ca. 6% in villages. Inhabited dwellings constituted over 92% of the total number of all dwellings in Poland. Their number amounted to 12.5 million in 2011, compared to 10.7 million in 1998, which gives an increase of 1.8 million dwellings. Taking into account the condition of the housing stock, which amounted to 12.5 million inhabited dwellings in 2011, over 64% of them (8 million dwellings) belonged to natural persons. The participation of the floor area of those dwellings constituted ¾ of the combined floor area of all occupied dwellings. As a result of the legal changes implemented in 2002, which made it possible to purchase cooperative premises on favourable terms by the natural persons who resided in them, the number of dwellings belonging to other entities decreased. Almost 1/5 of the housing stock belonged to housing cooperatives, including that based on the cooperative ownership right to premises – 15.4% of the total number of dwellings, as well as that based on the cooperative tenant right to premises – 1.8% of the total number of dwellings. The housing stock which belonged to gminas encompassed 1.1 million dwellings, which constituted 8.7% of the total number of all occupied dwellings. The associations of social housing (TBS) owned approximately 84 thousand dwellings, which constituted merely 0.7% of all occupied dwellings (table 2). Comparing the ownership structure of the housing stock in 2002 and 2011, one can clearly notice the direction of transformations from the social stock to the private stock.

**Table 2. The structure of occupied dwellings according to their owners in the years 2002-2011 [in %]**

<table>
<thead>
<tr>
<th>Specification</th>
<th>NSP 2002</th>
<th>NSP 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural persons</td>
<td>55,2</td>
<td>64,10</td>
</tr>
<tr>
<td>Housing cooperatives</td>
<td>28,6</td>
<td>18,3</td>
</tr>
<tr>
<td>Gminas (communes)</td>
<td>11,5</td>
<td>8,7</td>
</tr>
<tr>
<td>The Treasury</td>
<td>1,7</td>
<td>1,6</td>
</tr>
<tr>
<td>Company</td>
<td>2,2</td>
<td>1,6</td>
</tr>
<tr>
<td>Other entities (including TBS)</td>
<td>0,6</td>
<td>1,0</td>
</tr>
<tr>
<td>Unspecified</td>
<td>0,2</td>
<td>4,7</td>
</tr>
</tbody>
</table>

Source: Based on the CSO data (1996, 2014).

The current ownership structure of the housing stock indicates that there is a significant majority of private owners, with systematically decreasing public housing stock.
In general, on the basis of the ownership structure of the housing stock, one might distinguish three main tenure forms in Poland, such as: 1) owner-occupation, 2) social housing, 3) private rent. They are characterised by different forms of housing investment finance, different instruments of support for investments by the state, various forms of the allocation of dwellings, different regulations concerning the functioning of the housing stock. It seems justified to treat owner-occupation and rent tenures as belonging to different housing SOPs. It results from the fact that owner-occupation in the market economy is a sign of success in the Polish society, whereas rent is associated with professional failure or family issues.

2.2. Decentralisation and privatization of the housing stock

Defining the housing SOP in Poland requires an assessment of two key processes, i.e. decentralisation and privatisation. The course of these processes and their repercussions define the shifting nature of the housing SOP in Poland, influencing both its shape and principles of functioning.

The process of decentralisation in the housing sphere began in 1990. The gminas\textsuperscript{11} being the units of local government, were equipped with fixed assets and became owners of a significant part of housing real estate\textsuperscript{12} which used to belong to the territorial organs of state administration. This stock encompassed 2.1 million dwellings of 10.7 million dwellings in 1988. Simultaneously, an obligation was imposed on the gminas to satisfy the local needs of the society, including municipal and social housing construction \cite{UoSg, Article 7}. Since 2001, the range of the gminas’ tasks concerning the creation of conditions for satisfying the housing needs of self-governing communities has been broadened. The gminas have become responsible for providing social and temporary accommodation as well as satisfying the housing needs of low-income households. In the case of fulfilling an obligation of the removal of a tenant from a dwelling by a debt collector, the gminas have

\textsuperscript{11} "The scope of gminas’ activities includes all public issues of local importance, unrestricted by statutes for other entities. Satisfying collective needs of a community is the gmina’s own task." Source: Act of 8 March 1990 on the gmina self-government [uniform text, Journal of Laws of 2013 item 594, 1318, with amendments].

become obliged to indicate a temporary room, lodgings, shelter or another institution providing accommodation, unless such a place has been indicated by the creditor, debtor or a third party (UoOpl, Article 4). Since the beginning of this century, the process of decentralisation has reached even further and encompassed the area of housing cooperatives. Following a decision of the Constitutional Tribunal (2008, p. 35):

“public authorities are obliged to conduct such policy that is conducive to satisfying housing needs. This task shall also be realized by creating legal institutions which make it possible for natural persons to take collective activities with an aim to establish for themselves and their families a house or a residential dwelling in a multitenant building in order to satisfy their housing needs by the use of a given house or dwelling. It means that housing cooperatives whose aim is to satisfy the housing needs of their members and the members’ families have a particular legal status, accounted for in the Constitution, connected with their role in fulfilling the tasks of the state determined in Article 75 para. 1 of the Constitution. The establishment and activities of housing cooperatives are constitutionally protected. This fact limits, yet does not exclude, the possibility of an intervention of the authorities in this area”.

The process of privatisation of the housing stock in Poland, understood here as a change in ownership, from public to private, required certain dilemmas to be resolved. Among those dilemmas, there were: 1) the scope of state intervention, 2) the method for conducting ownership changes, 3) the scope of the residents’ participation in the ownership transformations of the housing stock, 4) the degree of equivalence of sale prices in relation to the market value of the housing stock.

Using a normative approach, the dilemma of privatisation concerns the scope of state intervention applied to the universal or selective housing policy (general or residual), assuming at the same time that the housing market was the primary mechanism of distribution (See for example EKES 2014). The universal conception was dominated by an idea of joint payment and obtainment of benefits by all the interested parties, and the social housing policy created a wide area of influence with an important capital and redistribution function of the financial system. Under the selective conception of the housing policy, state intervention was directed at less wealthy households (general variant) or specific sensitive groups (residual variant). The role of the state was much lesser under the selective conception than under the universal one. As a result, the share of dwellings for rent in the total stock remained much larger under the universal conception than under the selective
The work of the Institute of Housing Management constituted the most crucial opinion-forming voice for the universal conception of the housing policy, whereas the government assumed selectivity of the housing policy in the general variant. Such a stance resulted primarily from the desire of the central authorities to reduce public expenditures on housing. The process of privatization, being the essence of liberal reforms in the UK in the 1980s, became a certain role model and an inspiration at the same time. The process concerned – to a large degree – the scale of ownership transformations of the social housing stock. The government’s choice of the selective housing policy in the general variant leads in the economic practice to the realisation of the selective model in the residual variant.

The second dilemma, associated with the manner of conducting ownership transformations, concerned a bottom-up or a top-down approach to the process of privatization. The former consisted in taking privatization-related decisions at the central level, whereas the latter assumed that the local level should take over the responsibility within this scope. In Poland, a more popular conception was the bottom-up approach in which the key role was played by gminas. The local authorities were to decide about the privatization of housing stocks, the choice of public dwellings intended to be privatized and the value of discounts granted under the existing legislation prepared by the central authorities.

The third dilemma concerned the scope of the residents’ participation in ownership transformations of the housing stock. The conception that dominated here was considerable participation of the existing residents in ownership transformations of both the municipal and company stocks as well as cooperative housing stocks. High participation of the existing residents of the housing stock in the process was supposed to compensate considerable transformation costs connected with the transformation of the economy and born by “ordinary” citizens. Another conception was the sale of housing real estate to every interested person who possessed an adequate capital. Each of the above conceptions assumed that the owners would care for their housing real estate by refurbishing and modernizing it. Thus, the local authorities would get rid of the stock which required high expenditures, yet this stock would not be completely depreciated.
The fourth dilemma, corresponding partly to the previous one, concerned the equivalence of sale prices in relation to the market value of housing real estate. Privatization could have been conducted either based on market principles or through partially or completely free distribution. In Poland, it was the partially free distribution that dominated when it came to realizing ownership transformations, yet it was conducted with using considerable discounts. The sale of dwellings in the municipal and company housing stocks to their existing tenants did not take the form of a market transaction. The sale price established on the basis of the market value of the real estate was adjusted by the discount which could amount up to 95%.

There are three main methods for privatizing the housing stock in Poland: the municipalisation of property, the sale of ownership rights to premises by way of a tender or without a tender as well as the transformation of cooperative rights to dwellings. It seems justified to further discuss the above methods at this point.

The process of privatizing the housing stock in Poland began in 1990. At that time, gminas became the owners of an approximately 2.1 million dwellings adopted after the local organs of state administration. Municipalisation of the dwellings belonging to the Treasury may be considered as an initial method of privatisation supporting the stage of improving the housing economy in the public stock. This process was accompanied by a relatively insignificant transfer of the state stock to the existing tenants. Since 1991, ownership transformations have been made possible in company dwellings of the forestry service and in the real estate of the employees of State Agricultural Farms.

Only since 24 June 1994 did the act on the ownership of premises make it possible to sell dwellings as separate property by introducing the principles of separating the ownership of dwellings, principles of and procedures for separating those dwellings as well as an obligation for the owners to bear the full costs of maintenance, adequate to their participation in joint ownership. Thus, intensive ownership transformations began, especially in the municipal housing stock. Simultaneously, the principles of and procedures for transferring lands covered with residential buildings were regulated, allowing for a transfer of property from state-owned enterprises to gminas or other legal persons. The sale of ownership rights to housing real estate may be regarded as the primary
privatization method. It has been conducted in two ways: a predominant no-tender method and a complementary tender method.

The no-tender method has been applied mainly to the sale of property to the existing tenants, providing that the lease has been established for an unspecified time. It could also apply to the sale of real estate to the previous owners of the real estate for sale (including their inheritors), who were deprived of ownership rights to that real estate before 5 December 1990, on condition that they fulfil formal requirements (submit a request for acquisition). The real estate which belonged to the Treasury or local government units could be sold with a discount to the price established on the basis of a specified market value of the housing real estate. It is estimated that an average discount amounted to 87-89% between 2009 and 2011 (Ministerstwo, 2012), reaching even 95% of the real estate price in previous years.

In the tender method, the sale of housing real estate takes place based on the following procedure. The starting price in the first tender is set to the amount which is not lower than the value of the real estate. If the first tender is not completed, the price of the real estate may be lowered below the market value, yet not lower than 50% of that value. If the second tender is negative, the price is negotiated with the buyer in the amount not lower than 40% of the real estate value.

The process of privatization connected with the sale of ownership rights to housing real estate concerned approximately 45% of the gminas’ stocks and almost 90% of enterprise stocks between 1992 and 2011 [Table. 3]. As a result of the process of ownership transformations in Poland, 64% of owners of the housing stock in 2011 were natural persons\textsuperscript{13}.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
\hline
Municipal dwellings & 2,0 & 1,1 & 0,9 \\
\hline
Enterprise dwellings & 1,5 & 0,2 & 1,3 \\
\hline
\end{tabular}
\caption{Privatization of dwellings belonging to gminas and enterprises (in million)}
\end{table}

\textsuperscript{13} Statistical data for the year 1989 are not available; the data concerning previous years are incomparable.
The government expected that granting ownership to households would effectively shift the burden of modernising the housing stock on them. It was assumed that the discounts granted for purchasing dwellings would make it possible for the new owners to save their financial means which they would subsequently use for the modernisation and reconstruction. There were, however, no additional provisions in the sale contracts concerning an investment obligation due to the discount granted. Against the expectations of the state, the problem of a considerable repair backlog in privatized premises was not solved. The amount of necessary expenditures for repairing multi-family residential buildings frequently surpassed the financial means of the “new” owners of those premises. Furthermore, gminas sold mainly the dwellings of a relatively higher standard than the average in the municipal stock. As a result, the technical condition of the municipal stock did not improve, with a decreasing number of dwellings. The process of changing the qualitative structure of the municipal stock was not supported with the receipts from the privatization of dwellings. The financial means obtained from the sale of the municipal stock were insignificant, which resulted from granting high discounts. It shall be kept in mind that the decisions concerning discounts could have served as a key instrument supporting groups of electors at the local level, which increased the local authorities’ chances for being reelected in the following elections. Under such conditions, gminas did not conduct even their most fundamental task in the form of providing social dwellings to those who were entitled to such dwellings on the basis of court decisions. Private owners of the housing real estate inhabited by the tenants with rent arrears claimed for compensation to gminas after finishing court proceedings. It is estimated that the compensation for undelivered social dwellings amounted to 70 million PLN in 2011 (Ministerstwo, 2012). Compensatory procedures created further limitations in the gminas’ housing economy. The privatization of the municipal housing stock certainly did not offer support to resolving those problems. Moreover, it may be disputed whether or not it was their main cause. In sum, gminas sold the “valuable” housing stock, obtaining very low amounts (due to the discounts granted). Gminas were not able to reinvest the acquired financial means into new social housing, since these means were insufficient. The municipal housing stock remained even more underfunded.
Ownership transformations of cooperative rights to dwellings were another method for privatizing the housing stock. Thus, a cooperative tenant right was transformed into a cooperative ownership right and a cooperative ownership right into an ownership right. Given the financial problems of housing cooperatives, regarding cooperative property to be private property in 1994 led to profound ownership changes in that stock. The number of dwellings which constituted the cooperative tenant right decreased by over 80% in the years 1988-2011 (Table 4).

**Table 4. Ownership transformations in housing cooperatives (in millions)**

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<tr>
<td>Cooperative tenant dwellings</td>
<td>2,3</td>
<td>1,1</td>
<td>0,4</td>
</tr>
<tr>
<td>Cooperative ownership dwellings</td>
<td>0,5</td>
<td>2,3</td>
<td>1,9</td>
</tr>
</tbody>
</table>

Source: the author’s own analysis.

Some of the cooperative tenant rights were transformed into cooperative ownership rights and some into ownership rights to premises. As a result, lands covered with multi-family residential buildings remained the joint ownership of housing cooperatives (including the cooperative tenant right and cooperative ownership right to premises) and private owners of premises (ownership). The process of ownership transformations in housing cooperatives led to the marginalization of the housing stock for rent. In this case, the process of privatization limited the role of the housing cooperative movement, which had been deeply rooted in the Polish housing policy since 1920. It shall be emphasised that the cooperative movement in the interwar period referred to a larger degree to the basic principles of cooperation, the so-called “Rochdale Principles of Co-operation”, compared to the housing cooperative movement in the years 1945-1989, which was partly engaged in politics.

In sum, privatization of the public housing stock was conducted bottom-up and shaped mainly by the local authorities within the legal framework laid down by the central authorities. There occurred a process of decentralisation understood as taking over the responsibility for housing needs by gminas, yet without providing these entities with the necessary financial means for the realisation of the tasks within the housing sphere. As regards the public housing stock, the sale of premises to the existing residents or
employees of state-owned enterprises was non-equivalent with very high discounts. The process of privatisation constituted one of the key conditions for dynamic development of housing finance.

3. Land-use regulations in residential development

Residential development in Poland is conditioned primarily by spatial planning. The changes within land-use regulations have become one of the conditions favourable for such dynamic development of the financialisation of the housing sphere.

Spatial order in Poland determining the shape of the housing system of provision is currently regulated by the act on spatial planning and management of 27 March 2003.\textsuperscript{14,15} What has been regulated in particular are the rules shaping the spatial policy by the local government units and organs of government administration as well as the scope and manners of the procedure of allocating land for specific purposes and laying down principles of its management and development. A local land management plan accounts for such aspects as specifying land allocation, locating public purpose investments and specifying the manners of developing as well as development conditions. In the case where there is no local land management plan, specifying the manners of and conditions for land development takes the form of an administrative decision on land development and management conditions. Additionally, a study of conditions and directions of land management of a gmina is applied to pre-specify the allocation of real estate if there is no local spatial plan (called also local land management plan)\textsuperscript{16}. The conclusions of this study are binding for the gmina’s organs while they are preparing land local management plans.

The main issue determining the shape of the housing system of provision in Poland is a lack of local spatial management plans which would encompass the entire area of the

\textsuperscript{14}\textsuperscript{Spatial order is such a spatial shape which creates a harmonious entirety and encompasses in well-ordered relations all conditions and functional, socio-economic, environmental, cultural, compositional and aesthetic requirements.}

\textsuperscript{15}\textsuperscript{Act of 27 March 2003 on spatial planning and management, Dz.U. 2003 Nr 80 poz. 717 (Journal of Laws of 2003, No. 80, item 717).}

\textsuperscript{16}\textsuperscript{Act of 21 August 1997 on real estate management, Article 154. In the case of a lack of a local spatial management plan, the allocation of the real estate is established on the basis of a decision on land management and development conditions or of a study conditions and directions for the gmina’s spatial management [pre-allocation].}
country. Local land management plans covered merely 27.9% of the entire area of Poland in 2012, compared to 17.2% in 2004 (Śleszyński et al., 2014, p. 12). In the towns with district rights, local spatial management plans covered 42.5% of the town’s area (Śleszyński et al., 2014, p. 13). A crucial question arises concerning the reasons for and consequences of such a poorly shaped spatial order for the housing system of provision.

First of all, let us analyse legislative changes within spatial planning. The origins of regulating the spatial order in Poland, beginning with the market economy, took place on January 1 1995, i.e. on the day of the Act of 7 July 1994 on spatial planning entered into force (Journal of Laws of 1999 r. no. 15, item 139, with amendments). This Act repealed the act of 12 July 1984 on spatial planning. In accordance with the provisions of Article 67 of the Act on spatial planning, local spatial management plans, which were binding on the day of the act’s entry into force, were repealed after 8 years from that day (and in some extraordinary cases they were repealed after 9 years). The Act on spatial planning and management of 27 March 2003, amending the act on spatial planning of 7 July 1994, assumed that the local land management plans passed before 1 January 1995 would be binding until new plans were adopted, yet no longer than by 31 December 2003. Those plans expired with the end of 2003, together with the entry into force of the act of 27 March 2003 on spatial planning and management. This act was supposed to facilitate investing and simplify the procedures. In practice, however, it led to extending the process and resulted in spatial disorder in areas where a local spatial management plan had not been adopted. In the case of a lack of the local plan, planning permission is granted on the basis of a decision on land development and management conditions, and waiting for this permission may take up to a few months.

The legislator’s idea to terminate old local land spatial plans by the end of 2003, without proper preparation of gminas, serving as local government units, to create new local spatial management plans proved very unfavourable for housing provision. The most frequent reasons for failure to create new local plans on time include: a lack of financial means for this purpose, a lengthy and complicated procedure for adopting new local plans, possible conflicts between the existing real estate owners and the gmina which adopts
these plans, a lack of consequences to gminas for failure to adopt local spatial plans. Nonetheless, although the 9-year period for the preparation of local spatial management plans (1995-2003) was a relatively long period, gminas tended to delay adopting their plans. As a result, decisions on land development and management conditions constitute the basis for most investments in Poland, including some public investments. What resulted is the development of areas which have not been accounted for in local plans, urban chaos and dispersion of development as well as caricatural development of narrow farmlands.

Another problem determining the shape of the housing system of provision is a mass change in the purpose of land allocation from farming to housing. Śleszyński et al. [2014, p. 20] estimate that an average of 6-7% of the country’s area which is included in local spatial management plans has undergone a change in their purpose from agricultural to non-agricultural. The greatest investment pressure and [or] supply of land for investment purposes occurs in the regions surrounding the largest urban agglomerations, especially Warsaw, Krakow, Poznan, Trojmiasto (the Tricity), Wroclaw. In some gminas, the level of adopted agricultural land exclusions exceeded 20- and sometimes even 30% of the gmina’s area. As a result, excessively large areas were allocated in local spatial management plans to housing, the areas which many a time exceeded the actual needs and economic possibilities of gminas (Kowalewski et al., 2013). In the entire country, at the end of 2012, these areas made it possible to accommodate 62 million people (whereas the population of Poland is 38.5 million people). In many gminas, the study on conditions and directions of special planning and local spatial management plans allocate such areas for development whose demographic absorptive capacity exceeds the number of the gmina’s inhabitants even by as many as ten times, causing spatial chaos and a waste of space and capital (Kowalewski et al., 2013). Consequently, there appeared a very serious problem of deepened dispersion of development on scarcely populated areas. Following the research of the Polish Academy of Sciences (Śleszyński et al., 2014, p. 40), there is a threat that the efficiency of the socio-economic-spatial systems may decline, leading to the weakening of economic competitiveness and deterioration of the quality of life.

The economic effects associated with the inefficiency of spatial management most frequently include the following (cf. Kowalewski et al., 2013, pp. 3-4): 1) Excessive costs of
buoy out of lands for roads and the costs of establishing technical infrastructure on the areas which are unlikely to be fully developed, due to a greatly overestimated balance of land needs for housing and on extensively developed areas; 2) Costs of development and infrastructure damages on the areas unsuitable for development, i.e. areas threatened by floods, landslides, etc.; 3) Costs of high indemnities and social conflicts resulting from a lack of land reservations for supralocal public investments (especially national public roads) and transmission corridors (especially high voltage energy networks, gas and water supply systems); 4) Lost revenues of gminas from zoning fees, taxes and betterment levies; 5) Higher costs of construction and exploitation of technical infrastructure, including sewer, water, gas, heating and energy systems as well as telecommunications, road and lightning networks; 6) Higher costs of transport, including longer times of commuting to work, but also getting to kindergarten, school, doctor’s, and high road congestion in large Polish agglomerations

The social and environmental effects associated with inefficient spatial management most frequently include the following [cf. Kowalewski et al., 2013, pp. 3-4]: 1) Social and spatial polarisation resulting from a lack of public space and gating private space (gated communities); 2) Decline in social contacts or social life resulting from limited spatial availability of services, recreational areas and object of culture; 3) Defragmentation of natural systems – wildlife corridors and aeration corridors in cities, as well as devastation of landscape, especially in terms of its aesthetic value.

In sum, the dispersion of settlement in Poland, especially in the surroundings of large cities, causes negative economic and socio-environmental effects, and consequently undermines and distorts the housing system of provision. The lack of local spatial management plans for the entire area of the country (these plans are available for merely 1/3 of the area of the country) and mass transformation of the lands without the right of development into investment areas strengthens the influence of the self-promotions housing investment mechanism in the housing system. It is easier to realize individual housing investment than more complex housing settlements form the perspective of spatial planning.
4. Housing construction and housing investment mechanisms

4.1. The structure and dynamics of housing construction

An average number of dwellings commissioned in Poland in the years 1991-2014 (August) amounted to 114 thousand, with a standard deviation of 32 thousand dwellings and a 28-percent coefficient of variance. There is a considerable concentration of results around the mean.

Nonetheless, we may notice that certain values clearly stand out from the other results, especially as regards the data from July 2003 (consequences of the change in the Building Code and mass reporting of finished works by individual investors). Unfortunately, it is difficult to eradicate this problem within the assumed time series without distorting the occurring market phenomena, which proves that we should treat the results obtained with caution. The data have been filtered using the Census X13 method. What shall be highlighted in the data presented is a noticeable transformation in the housing sphere which occurred in the mid-1990s. This transformation resulted above all from the fact that the state ceased to support housing cooperatives, but also from considerable adaptation problems of this form of housing to the market economy conditions.

Figure 1. Dwellings commissioned in Poland between 01.1991 and 08.2014

Explanations: blue line: number of dwellings commissioned in Poland. Red line: number of dwellings commissioned in Poland, adjusted seasonally.
Source: Based on the data of the Central Statistical Office (GUS).
Figure 2 depicts the structure of dwellings commissioned in Poland. The author has used the data published by the Central Statistical Office, thus the presented classification is quite general. It may be concluded on the basis of changes presented in figure 2 that the individual investors (self-promotions housing investment mechanism) played a key role in the investment process. Out of the total of 2.6 million dwellings commissioned between 1991 and 2013, almost a half was created within this mechanism. Consequently, single-family housing began to predominate in villages and smaller towns (up to 100 thousand inhabitants). In large cities these investments were realised on the outskirts, frequently far from services and workplaces as well as technical infrastructure (usually sewer and gas systems), yet with the possibility of having one’s own garden and a larger living area.

**Figure 2. The structure of dwellings commissioned in Poland in 1991-2013**

Explanations: the total number of commissioned dwellings include the dwellings built by housing cooperatives, dwellings built by individual investors, dwellings built by developers for sale or rent and dwellings others: built by Housing Associations (TBS), gminas and companies.

Source: Based on the data of Central Statistical Office (GUS).

The cycles of commissioned dwellings have been isolated using method of unobservable components (fig. 3). The assumed variable is non-stationary, integrated in the first degree (ADF and KPSS tests). The author of this study has assumed that the trend would be smoothed by applying a stable level of the trend and a stochastic tilt. Due to the stationary nature of the obtained cyclic component of housing (ADF, KPSS tests), it was possible to apply a spectral analysis in order to identify the predominant cycle. The cycle’s length has been estimated to be around 7.5 years. Applying the Bry and Boschan’s (1971)
procedure, the cycle peaks were identified, following on March 1992, April 1998, March 2001, March 2003, December 2008, November 2012. Interestingly, shortening the period assumed for the analysis (1 January 1995 – 31 December 2013) causes the predominant cycle in the spectral analysis to amount to slightly more than 6 years. Such results highlight in particular how strong and negative has the influence of the political and economic transformation been on the housing sector in Poland (a very long phase of slowdown).

**Figure 3. The course of the trend and cycle of dwellings commissioned in Poland between January 1991 and August 2014**

Explanations: the model includes an intervention within the period from May to July 2003 connected with a change in the Building Code (Ustawa Prawo Budowlane), which caused a number of investors, especially individual, to attend to formalities associated with finishing construction works. Test results: R² – 56%, Ljung-Box statistic 13,285 [critical value 30,1435], Durbin-Watson statistic 1,9646 [du value 1,83115].

Source: the author’s own analysis based on the monthly data of commissioned dwellings made available by the Central Statistical Office (2013).

### 4.2. Housing investment mechanisms

As a result of political and economic transformations of the 1990s the manner of realising housing investments was changed. A relationship was created between the participants of the investment system, i.e. a) the market with a system of tenders and a possibility of choosing suppliers, contractors, designers, lending institutions, based on the economic
calculation, b) contracts as a legal basis for any business activity specifying its subject-matter, conditions for fulfilment, deadlines, remuneration, penalties, and above all concluded voluntarily and as a result of free decisions made by economic entities with full responsibility for their realisation. Consequently, investment performance, i.e. construction of dwellings as a system of connections and relations between an investor, designer and a contractor, and adapting the construction project to the local requirements of the local land management plan or decisions concerning the specification of building conditions are identical, regardless of the type of a housing investor. However, the manner of obtaining funds by investors differs considerably [Bryx, 2001, p. 39].

In the self-built or self-promotions housing investment mechanism the investor is a natural person who individually performs a housing investment, i.e. the construction of a single-family house. Such a person employs a geodesist, an architect, construction professionals (bricklayers, roofers, tile layers, plumbers, electricians, etc.). (fig. 4).

The relations between an investor, who builds for his or her own purposes, and a lending institution are based on raising mortgages in universal banks and their subsequent repayment. It is vital to fulfil certain key criteria: the investor’s creditworthiness, the possibility of securing the mortgage for the bank and the investor’s own contribution (usually a plot of land). Within the public subsystem of finance, an investor building for his or her own use had a chance to 1) reimburse expenses connected with construction materials and 2) obtain mortgage interest rate subsidies for housing purposes, including the construction of a single-family house under the project “Rodzina na Swoim” (A Family’s Own Place) (2007-2012). The principles for reimbursing the investors’ expenses on construction materials have been tightened since 1 January 2014. Furthermore, additional criteria have been introduced: the floor area shall not exceed 100 m2, the investor shall not be over 36 years of age nor shall he or she

Figure 4. Self-built or self-promotions housing investment mechanism

<table>
<thead>
<tr>
<th>MARKET SUBSYSTEM OF FINANCE</th>
<th>INVESTOR PERSON WHO BUILDS FOR THEIR OWN PURPOSES</th>
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<tr>
<td>PUBLIC SUBSYSTEM OF FINANCE</td>
<td>SUBSYSTEM OF PLANNING</td>
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<td>SUBSYSTEM OF IMPLEMENTATION</td>
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Source: the author’s own analysis based on Bryx (2001), Lis (2008).
possess an ownership right to other residential premises. The amount of reimbursement for 23%, i.e. the basic VAT rate in Poland, equals 65.22% of the VAT amount on invoices, yet no more than 12.295% of the amount constituting a product of 70 m2 of the floor area and replacement costs for 1 m2 of the living area of a residential building announced by the Central Statistical Office (4228 PLN in IV quarter of 2013). The project “Rodzina na Swoim” (A Family’s Own Place) realised in 2007-2012 made it possible for families, single parents and singles, regardless of their age, to obtain a subsidy to the interest rates of housing loans paid in PLN, in the amount of 50% of the interest on the debt to be paid (the basis for determining the subsidy) under the current reference rate. The beneficiaries of this project could not possess other ownership rights to housing real estate. The purchase price for a dwelling or a single-family house, purchase price for a cooperative ownership right to premises, construction contribution, cost of construction of a single-family house, cost of conducting construction works connected with a residential building as well as buildings or premises intended for other uses in order to obtain residential premises constituting separate real estate or a single-family house on which a subsidised loan has been taken, could not exceed the amount obtained from the product of the floor area of residential premises or a single-family house and the average conversion rate of replacement costs for 1 m2 of the living area of residential buildings announced by the Central Statistical Office. The basis for determining the amount of subsidies was the debt to be paid in full in the case where the real estate area did not exceed: 70 m2 for a single-family house financed with a loan, provided that the target borrower was a marriage or a single parent, 50 m2 for financed residential premises, if the target borrower was a marriage or a single parent, 30 m2 for residential premises, if the target borrower was single. The period for applying subsidies could not exceed 8 years from the date of application of the first subsidy, regardless of the loan period.

In reality, approximately 1/5 of the housing loans granted under this project (in the quantitative and qualitative depiction) were connected with the private housing investment mechanism (over 36 thousand loans amounting to 7.3 billion PLN, i.e. the value of an average loan at the level of 200 thousand PLN). Additional support regarded the dwellings purchased on the secondary market (ca. ½ of the loans granted in this project) and those
purchased on the primary market (1/3 respectively). As a result, the public subsystem of finance played a marginal role in the private housing investment mechanism, with the key role played by the market subsystem of finance and a special role of universal banks.

In the property developers housing investment mechanism the buyer of a dwelling or a house is not an investor within the meaning of an investment process, but he or she buys a ready or almost ready product from the investor, i.e. the developer. In such an approach, the developer is responsible for the relations with a subsystem of planning and implementation (fig. 5).

![Diagram](image)

*Source: the author’s own analysis based on Bryx (2001), Lis (2008)*.

In this mechanism, the importance of the subsystem of supply is larger than in the private housing investment mechanism, which stems from two main reasons. Firstly, developers have a possibility to raise a mortgage on financing their investment undertakings not only in universal banks but also in mortgage banks which refinance their activity by issuing covered bonds. Secondly, dwelling or house buyers have a possibility to receive support from the state, in 2007-2012 it was a project aiming to subsidise interest rates of mortgage loans granted for housing purposes - “Rodzina na Swoim” [A Family’s Own Place], and since the beginning of 2014 it is a project aiming to subsidise own contributions17 “Mieszkanie dla Młodych” [A Dwelling for the Young]. Subsidising own contributions applied to buyers who have purchased a newly built dwelling from a person who has built this dwelling within the business activity he or she conducted and raised a loan for the construction of the dwelling from a lending institution. Thus, the project “Mieszkanie dla Młodych” [A Dwelling for the Young] implemented preferences for the

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17 Subsidies to own contributions are financial means intended to pay a part of the purchase price for a dwelling, paid on the conditions specified in statutes as a part or whole of the amount which the person requesting a loan on the purchase of a dwelling declares to cover with their own funds.
property developers housing mechanism. The amount of the subsidy to own contributions is the amount obtained from the product of the floor area given in m2 of a purchased dwelling (yet no more than 50 m2) and the average conversion rate of replacement costs for 1 m2 of the living area announced by province governors, which equals 10% for families without children and 15% for families with at least one child. Requirements for obtaining support from the state include the age of the buyer – up to 35 years of age, lack of other titles to housing real estate, applying for a housing loan to satisfy own housing needs, the floor area not exceeding 75 m2 for residential premises or 100 m2 for a single-family house18, the housing loan is raised in PLN for at least 15 years, constituting at least 50% of the purchase price for the real estate.

In the cooperative housing investment mechanism the main aim is to satisfy housing and other needs of cooperative society members and their families by supplying the members with individual residential premises or single-family houses, as well as premises for other uses (fig. 6). Housing cooperatives realise the following investments: 1) construction or purchase of buildings in order to establish for their members cooperative tenant rights to premises located in these buildings; 2) construction or purchase of buildings in order to establish for their members separate ownership of the residential premises and premises for other uses located in these buildings, as well as to establish limited participation in joint ownership on multi-position garages; 3) construction or purchase of single-family houses in order to transfer ownership to members; 4) providing assistance to members in the construction of residential buildings or single-family houses; 5) construction or purchase of buildings for the purpose of leasing or selling the residential premises or premises for other uses located therein (See more in Peisert, 2009; Cesarski, 2007).

18In the case when the buyer raises at least three children on the day of submitting an application, the subsidy to own contribution may be granted to the purchased dwelling, provided that the floor area of this dwelling does not exceed 85m2 for residential premises and 110 m2 for a single-family house.
This project has received funding from the European Union’s Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

Since 31 July 2007, housing cooperatives cannot establish new cooperative ownership rights to premises; they can only administer previously established rights. A cooperative ownership right to premises is a limited material law, a law to use premises which are owned by a housing cooperative, established by an agreement, transferable, inheritable and subject to execution [Bończak-Kucharczyk, 2011, p. 377]. Thus, the cooperative housing investment mechanism, after legislative changes of 2007, realises undertakings consisting in the construction of dwellings, to which there is a cooperative tenant right or an ownership right. In the case of creating cooperative tenant rights to residential premises, an investor – a housing cooperative – commits itself to put residential premises for use by the members, and the members commit themselves to making housing contributions and payments. A member makes a housing contribution under the principles specified in a statute in the amount corresponding to the difference between the construction costs of his or her premises and the assistance obtained by a cooperative from public resources or other resources obtained for financing the costs of construction. If the amount of the housing contribution has been financed with a loan which a cooperative has taken out to finance the construction costs of given premises, the member is obliged to participate in repaying this loan together with its interest rates to the extent corresponding with the size of his or her premises. Thus, either without the assistance of public resources or with marginal assistance, the creation of tenant rights to residential premises in the cooperative housing investment mechanism is not an alternative either to leased or owner-occupied dwellings. In the case of establishing

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19 Cooperative members who are entitled to cooperative rights to premises are obliged to participate in covering the costs connected with the operation and maintenance of real estate to the extent corresponding to their premises, operation and maintenance of the real estate which constitutes property of the cooperative by making payments in accordance with the provisions of the statute [UoSM, Article 4, paragraph 1].
separate ownership rights by the cooperative, the cooperative housing investment mechanism becomes identical with the developers housing investment mechanism.

What follows from an analysis of the data concerning the construction costs of cooperative dwellings is the fact that these costs are diverse and run within the range from 2980 PLN/m² to 4281 PLN/m², with an average of 3702 PLN/m² and are considerably higher in the cities with the population of over 100 thousand inhabitants. Comparisons of the relationship between dwelling prices and monthly remuneration, conducted over the period of several years (2003–2012) in selected cities, indicates that it was possible to buy 0.84–0.95 m² of a dwelling for one monthly remuneration (Informacje o mieszkalnictwie 2013, p. 89).

In order to strengthen the segment of moderate-rent social housing for rent, the Associations of Social Housing (TBS) were established in 1995 (fig. 7). They could operate as limited liability companies, public limited companies or cooperatives of legal persons. In practice, most TBSs are limited liability companies with 100% participation of gminas, implementing the formula of moderate-rent social housing for rent. The income of TBSs has to be allocated entirely on the statutory activity of an association and it cannot be divided among the shareholders or members of an association. The main aim of the TBS housing investment mechanism is the construction of residential houses and their administration based on the principles of lease. Furthermore, the Associations of Social Housing can also purchase residential buildings, overhaul and modernise buildings intended for satisfying housing needs based on lease, lease business premises located in the association’s buildings, administer residential and non-residential buildings which are not the property of an association in accordance with contracts of mandate, provided that the area of non-residential buildings under administration does not exceed the area of residential buildings, as well as perform

**Figure 7. TBS housing investment mechanism**

![Diagram of TBS housing investment mechanism]

Source: the author’s own analysis based on Bryx (2001), Lis (2008).
other activities connected with housing construction and its infrastructure. A supervisory board is appointed in TBSs, and the gmina or gminas on the territory of which the association operates have a right to introduce their representatives to the composition of the supervisory board in the numbers specified by the statute.

The main source of financing the construction of residential premises to be leased were subsidised loans from the resources of the Domestic Housing Fund in Bank Gospodarstwa Krajowego [National Economy Bank] (50%-60%), since 2009 with the own resources and on the own account of Bank Gospodarstwa Krajowego. Among other sources there were participation payments (15%-30%), the TBSs’ own resources obtained from own contributions made by partners (including land, utilities, funds from gminas) as well as economised resources (including those from other activities). Loans from the resources of the Domestic Housing Fund could be granted for financing no more than 70% of the construction costs of residential premises to be leased. For the undertakings for which an initial loan application was submitted before 1 January 2005, the loan from the resources of the Domestic Housing Fund was subject to amortisation in the amount of 10% of the costs of the undertaking, after its termination and settlement on time. TBSs can take advantage of an income tax exemption. The income which is exempt from taxation is that coming from the management of the housing stock – in the part allocated for the purposes connected with the maintenance of this stock, excluding the income obtained from other economic activities than the management of the housing stock.

Agreements with TBS concerning the participation in the construction costs of residential premises are concluded by: 1) gminas or intergminas associations, poviat [districts] wanting to sublease residential premises to natural persons, 2) legal persons interested in obtaining residential premises by third persons indicated by them, 3) companies wanting to obtain residential premises for their employees. Since 2004, a natural person may conclude an agreement with an association concerning the participation in the construction costs of residential premises which they are going to lease\textsuperscript{20}. The amount of participation obtained from natural persons cannot exceed 30% of

\textsuperscript{20} Earlier there was a possibility to finance construction costs by natural persons who were interested in obtaining the premises by third persons indicated by them.
the costs of construction of these premises. The association may lease residential premises to natural persons only if 1) the natural person and other persons reported to share the premises, on the day of taking up the premises, do not possess a legal title to other premises in the same town, 2) the household’s income does not exceed 1.3 of an average monthly remuneration in a given province more than by 20% in a single-person household, more than 80% in a two-person household, and another 40% for each additional person in a household with more than two persons.

Lessees of the TBS residential premises are obliged to: make a statement, every two years by April 30 of a given year, concerning the household’s average monthly income and inform TBS about obtaining a legal title to other residential premises immediately after its obtainment, 2) present a certificate issued by an appropriate local tax office concerning the amount of income earned by the lessees and other persons reported to share the premises with them, on demand of the TBS. The Associations of Social Housing may denounce an agreement: 1) obligatorily, without the period of notice: when the lessees provided untrue information in their statements, 2) optionally: when the lessees fail to submit their statements on time or display in their statements income which exceeds the statutory amount, or when the lessees have obtained a legal title to other premises in the same town, in the part concerning the limitation to the annual amount of rent up to 4% of the replacement value of the premises. Furthermore, a lease agreement with TBSs provides for an obligation to pay a security deposit by the lessees in order to cover any rentals due on the day of vacating the premises, amounting to a maximum value of 12-month rent.

The rent rate for 1 m2 of floor area in the association’s housing stocks is determined by TBSs to such an amount so as to be able to cover the exploitation and repair costs and to repay the loans raised for construction with the sum of rent for all leased premises utilised by the TBS. The rent cannot be higher than 4% of the replacement value of the premises yearly.

There is clearly an increased activity of the lobby of lessees and participants in TBS housing aiming at transforming the lease right to TBS dwellings into an ownership right. As a result, a possibility to own TBS residential premises was introduced in 2011 and concerned the premises built with an investment and construction loan granted by Bank
Gospodarstwa Krajowego from the resources of the previous the Domestic Housing Fund on the basis on applications submitted by 30 September 2009. An ownership right to premises may be transferred by TBSs only to a natural person who is both a lessee and a party to the agreement concerning the participation in the construction costs of the premises. The decision whether or not to transfer the ownership right to premises is made by TBSs. When separate ownership is established, the sale price of premises cannot be lower than their market value. In reality, the majority of TBSs’ decisions are negative. Nonetheless, the lobby of TBS participants attempts to influence various political parties to continue the process of privatisation of TBSs. The greatest interest in purchasing TBS dwellings is noticeable in the largest cities, yet it varies considerably [from 70% in 2011 to 30% in 2012]. The purchase conditions [market price for a dwelling] are too difficult for the existing tenants to fulfil, and that is why an average of merely 7% of the tenants surveyed would actually purchase their dwellings (Informacje o mieszkalnictwie 2013, p.91; See more in Szelągowska, 2011).

Taking into consideration the results of the audit conducted by the Supreme Chamber of Control (NIK) concerning the functioning of the Associations of Social Housing (TBS), the condition as of 31 March 2009, the positive assessment was given to the availability of residential premises for those who met statutory criteria, realisation of the conditions of loan agreements under the resources from the Domestic Housing Fund and cooperation with gminas regarding the creation of conditions for the improvement of the housing situation of the local community (NIK 2010, p. 6). In certain gminas, TBSs became a fundamental instrument of satisfying the housing needs of self-governing communities. Irregularities in the functioning of the analysed group of TBSs, according to the NIK, consisted among all in: unreliable verification of the fulfilment of the required criteria by lessees, delays in the realisation of investment undertakings, violation of the provisions concerning the award of public contracts. Finally, negative assessment was given to charging an incorrect amount of rent for leasing premises and collecting additional charges as well as providing services concerning the management of gminas real estate with a loss and violation of the law. According to the Supreme Chamber of Control, the idea of social housing in the form of TBSs has not proved fully efficient in its present condition. TBSs’
basic activities (construction and purchase of residential premises), for which they were created, constituted less than 25% of the entire activity, and the additional economic activity conducted in 60% of the TBSs under analysis generated a loss. Contrary to the initial goals of TBS there were also practices such as the commercial use of land acquired from gminas and not taking any action in order to limit the turnover of participations, i.e. premises from the TBS stock21 (NIK, 2010, pp. 6-34).

The aim of the housing investment mechanism of a gmina is to satisfy the housing needs of its inhabitants (fig. 8). The gmina is obliged to provide social22 and temporary accommodation23, and to satisfy the housing needs of low-income households24. In order to so, a gmina shall utilise the gminas housing stock25 or it shall satisfy the needs of the inhabitants in another way, e.g. by participating in the construction costs of TBS dwellings, gains the right to administer premises and lease them to lessees who fulfil certain criteria determined by a

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21 In the analysed period there was more media information about the turnover of residential premises from the TBS stocks by their participants. Numerous advertisements could also be found on the Internet. These premises became commercial goods, which distorted the idea of social tenant housing intended to make it easier for the persons who did not qualify to be granted a bank loan to obtain dwellings. The minister’s view, however, was that the existing provisions enabled assignments of rights from participation beyond the control of the owner of the stock, and the only possibility to block possible uncontrollable assignments regarding the agreements concluded before the change in legislation in 2004 was a change in the provisions of those agreements, made by mutual consent of both parties (NIK, 2010, pp. 21-22).

22 Social accommodation means premises suitable for living in terms of their equipment and condition, whose room area per one member of the lessee’s household cannot be smaller than 5 m2, and in the case of a single-person household – 10 m2, while these premises may be of lower standard.

23 Temporary accommodation means premises which are located in the same town where the previous premises were located, equipped with such technical devices as found in the previous premises; this condition is deemed to be fulfilled if the combined room area per one member of a household is 10 m2, and in the case of a single-person household – 20 m2.


25 Gminas housing stock means premises which belong to a gmina or communal legal persons or commercial partnerships created with the participation of a gmina, except for the associations of social housing (TBSs), as well as premises remaining in independent possession of these entities.
given gmina or leases residential premises to persons who are entitled to social accommodation. The gminas housing stock was most frequently expensed as a result of the construction of new dwellings (over 57% increase in the years 2009-2011). Such possibilities as purchasing dwellings, adapting non-residential premises to the residential ones or leasing dwellings from other entities to sublease were used less frequently by gminas [Podsumowanie wyników ..., 2012, p. 25].

Concluding a lease agreement concerning the premises which belong to the gminas housing stock depends on the following: housing conditions and the amount of income of a given household. These factors are determined in an appropriate resolution adopted by the gmina council concerning the principles of leasing premises which belong to the gminas housing stock [See more in Foryś, 2011; Przymęński, Oliwa – Ciesielska, 2014].

The rent rates in the gminas housing stock are determined by an executive organ in accordance with the principles adopted by the gmina council in a long-term program concerning the management of the gminas housing stock, which should encompass among all the principles of rent policy and the conditions for lowering rent. The rent rate for social accommodation cannot exceed a half of the lowest rent rate in a given gminas stock. Based on the analysis of rent rates conducted by Instytut Rozwoju Miast [Institute of Urban Development] (2013, p. 50), it may be concluded that the authorities decide more frequently to make the costs of maintenance of their stocks real, although the rate still does not ensure the stock’s replacement cost. Rent payments in 2012 for gminas residential premises with the lowest standard fluctuated from 1.01 PLN/m² to 4.49 PLN/m² a month, with an average rate amounting to 2.28 PLN. The average rent rate constituted in a yearly depiction 0.6% of an average replacement cost of residential premises assumed at the level of 4.5 thousand PLN/m² [Informacje o mieszkalnictwie 2013, p. 50].

The key role in the gmina’s housing investment mechanism is played by the disposers of public funds. The support program for social housing runs on the basis of the provisions of the Act of 8 December 2006 on financial support for the creation of social accommodation, protected accommodation, lodgings and shelters for the homeless. Depending on the type of undertakings, gminas – acting as an investor – receive financial support of up to 30-50% of their costs. This support is allotted for the creation of a housing
stock for the poorest and persons who find themselves in exceptionally difficult circumstances. In the years 2007 – 2 q. 2013, gminas received support for the creation of approximately 12 thousand residential premises, including 9 thousand social accommodation premises, over 100 places of protected accommodation, 2.8 thousand gminas dwellings, 88 dwellings for the victims of floods and about 1 thousand places of short-term accommodation (tab. 5).

Table 5. Effects of the functioning of the program of social housing in 2007-2013 2 q.

<table>
<thead>
<tr>
<th>Specification</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013 q2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of realised applications</td>
<td>171</td>
<td>95</td>
<td>100</td>
<td>75</td>
<td>104</td>
<td>104</td>
<td>62</td>
<td>711</td>
</tr>
<tr>
<td>Number of dwellings</td>
<td>2564</td>
<td>2032</td>
<td>1403</td>
<td>1382</td>
<td>1749</td>
<td>1950</td>
<td>831</td>
<td>11911</td>
</tr>
<tr>
<td>Number of places in lodgings and homeless shelters</td>
<td>180</td>
<td>206</td>
<td>32</td>
<td>252</td>
<td>146</td>
<td>63</td>
<td>87</td>
<td>966</td>
</tr>
</tbody>
</table>

Source: Based on the Ministry of Infrastructure and Development data.

The demand for residential premises from the gminas housing stock stays at a relatively steady level of approximately 135 thousand premises on average. What changes, however, is the structure of this demand. There is quite a rapid increase in the demand for social accommodation, connected especially with the enforcement of eviction orders. In 2011, an average of 2.1 eviction orders with the right to social accommodation fell on one premises. The percentage estimates do not encompass the demand for temporary premises, which should be officially provided by gminas in specific cases since 16 November 2011. The number of persons awaiting to be provided with temporary premises is estimated at approximately 22.3 thousand people nationwide. On average, there are 6.7 persons per room waiting for temporary premises. This deficit is especially noticeable in the largest cities in Poland. In the case of eviction to temporary accommodation, at the end of 2011 there were 14.3 eviction orders per one premises. It shall be noted that the existing social and temporary premises are leased by gminas in the majority of cases and are not

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26 Protected accommodation is a means of social assistance, the aim of which is to prepare the persons residing there, in the care of specialists, to lead an independent life, or a means of replacing accommodation in a 24-hour nursing institution. Protected accommodation ensures the conditions for independent functioning and integration with the local community. A stay in protected accommodation may be granted in particular to: persons with mental disorders, persons who are about to leave their foster families, nursing and educational institutions, juvenile correction facilities, as well as foreigners who have been granted a refugee status or additional protection.
available for the realisation of the current eviction orders. In accordance with the provisions governing the protection of tenants’ rights, if gminas fail to provide social premises to a person who is entitled to them by a legal judgement, the owner of the dwelling shall have the right to claim compensatory damages from the gmina. It is estimated that the damages for failure to provide social premises reached the sum of 70 million PLN nationwide at the end of 2011. (Podsumowanie wyników ..., 2012, pp. 23-24).

The key role in the rental housing investment mechanism is played by the market subsystem of finance which provides an investor with the capital required for the realisation of investment undertakings (fig. 9). A lessee is the main agent in this mechanism, being a temporary user of a dwelling which is another person’s property and to which the lessee cannot lay any claims. A lessee who pays rent may obtain a rent allowance from the disposers of public funds.

Whatever profitability of housing investments for rent was there in Poland in the years 1945-1989, it disappeared together with the socialist system, and – due to compulsory quartering – the existing owners were deprived of the right to use their dwellings. A low level of rent, which lasted for many years, led to the decapitalisation of the existing private housing stock for rent. In spite of increasing the expenditure on the technical maintenance of dwellings for rent in the first decade of the 21st century, the necessary repair in private tenement buildings was covered only in approximately 25% on average. It means that the repair deficiency in this stock amounts to approximately 75%; it shall be noted, however, that – contrary to other forms of ownership – the level of this deficiency does not increase (Informacje o mieszkalnictwie 2013, p. 63). Nowadays, when an agreement is concluded in the rental housing investment mechanism, there are no limitations concerning the amount of the rent rate. Limitations appear when it comes to increasing rent rates. An increase which results in the amount of rent or other fees for
using premises exceeding the level of 3%, or is initiated from a level higher than 3% of the replacement value of premises per year, may be effected only in justified cases. An increase in rent per year may be no more than the equivalent of 1.5% of the expenditure on the construction or purchase of premises (or the equivalent of 10% of the expenditure spent on permanent improvement of the existing premises, increasing their use value) augmented by a fair profit. Furthermore, rent may not be increased more often than every 6 months (UoOPL, Article 8a). The level of market rents in Poland is relatively high compared to earnings. The highest rent and the greatest choice of residential premises may be found in Warsaw. A monthly cost of leasing a one-room dwelling (a bedsit) of 30 m² floor area was 1500 PLN in 2013, which constituted approximately 1/3 of an average remuneration in this city. In other cities such as Krakow, Wroclaw, Poznan, Gdansk, Gdynia, Sopot, the monthly rent amounted to 30-35 PLN for 1 m² of floor area (Wynajem mieszkania ..., 2013, pp. 4-10).

Claiming rent arrears by the owners seems to be a problem in the segment of dwellings for rent. Firstly, court proceedings concerning such cases are lengthy, although this situation seems to be gradually improving. Secondly, an eviction order or a termination of a lease agreement does not ensure vacating of the premises by their tenants. Although gminas are obliged to provide the evicted lessees with social or temporary accommodation, there is a considerable deficit in the number of such premises. Lessors have a right to make compensatory claims against gminas on the grounds that they have not provided the evicted lessees with social or temporary accommodation. Nonetheless, such a situation increases the risk of the rental housing investment mechanism. Furthermore, it makes lessees feel unpunished and puts the owners and administrators in a dead-end situation.

There are three main types of leased real estate in the free market segment: 1) dwellings in new buildings (5-10 years old), 2) dwellings in older buildings in a good condition, 3) dwellings in older, low-standard buildings (Wynajem mieszkania ..., 2013, p.5). The first group is composed of residential dwellings with a high standard of accommodation and a high standard of shared real estate. These dwellings are owned mainly by families who have changed their place of residence and decided to lease other residential premises. The real estate is administered by the owners themselves or by small
managing agencies. The rent rates are regulated by means of a standard lease agreement, signed most frequently for the period of one year with a possibility of renewal [Wynajem mieszkań ..., 2013, p. 5]. The second group consists of premises built in the times of the People’s Republic of Poland or in the pre-war period. The standard of this accommodation is usually mediocre, with a poor technical condition. Residential premises have been inherited by their current owners and are leased on the basis of a standard lease agreement, without any long-terms arrangements and with minimum involvement of financial resources for modernisation or equipment. Lessees, being afraid of increasing rent, do not expect the owners to invest in the standard of their dwellings. Consequently, rent rates for residential premises are quite high in large cities, despite the low quality of these premises [Wynajem mieszkań ..., 2013, p.5]. The third group of dwellings comprises the premises whose standard and equipment is in a very poor condition, and the lease of which does not involve any written agreements. Thus, the low level of rent compensates the low quality of these dwellings and lack of security of the continuity of residing in these premises [Wynajem mieszkań ..., 2013, p. 5].

The development of the segment of dwellings for rent is partly connected with the change in the housing preferences of Poles. Certain symptoms of this change were made visible at the beginning of the second decade of the 21st century among young people born in the market economy (about 25 years of age). Possessing an ownership right does not make a big difference to these people, for whom mobility and independence of accommodation is of much greater importance. Furthermore, young people migrate to large cities in pursuit of education and career.
4.3. Financial condition of construction enterprises

The obstacles which hinder conducting construction activities in the latest slowdown (2009-2013) include among all delays in payments, difficulties in obtaining funding for investments, fierce price competition (companies from outside of the European Union), shortage of experienced workforce, high costs of employment, asymmetry in the rights and obligations of investors and contractors in investments realised under public orders (Grzeszczak, 2013).

The return on equity (net profit to owner’s equity) of large property developers ran at a low level, i.e. between 2 to 4%, in the years 2006-2013. Being aware of the fact that property developers tend to lower their financial results, it seems worth looking into the structure of funding their activities. The participation of owner’s equity in the total equity amounted to 40% in these companies. Furthermore, property developers with a very low share of owner’s equity in liabilities, reaching as little as 5%, began to spring up. Thus, this sector is extremely sensitive to changes in financial conditions. An increase in the cost of foreign capital or a decrease in the availability of loans results in a decline in the return on equity. In foreign capital, there has been smaller participation of prepayments in housing investment finance in the second decade of the 21st century due to regulatory reasons. The current liquidity ratio in large developers amounted to 1.5-2.0 in the years 2007-2013, which in average values, is a financial correct result. Nonetheless, the largest deviations from the average took place in 2011-2012. At that time, there was a growth in the liquidation of construction companies. The ratio of construction loans classified by banks as non-performing loans grew from approximately 20% in 2011 to 30% at the turn of 2012/2013 (Łaszek et al., 2014, pp. 10-24). Construction cycles result in changes in the numbers of property developers suffering from financial problems from 5% to 25%, depending on the phase of the housing cycle. In sum, a considerable degree of funding housing investments with foreign capital in the developers mechanism causes its dependence on the financial system. Thus, mutual dependence between the financial sphere and the real sphere increases.

Taking the sphere of production into consideration, one cannot omit considerable modernisation backlogs in the housing stock in Poland. Permanently occupied dwellings
with substandard\textsuperscript{27} conditions constituted 11\% of the housing stock, i.e. approximately 1.3 million dwellings in 2011. Roughly 5.4 million people lived in substandard conditions, which constituted 14.1\% of the population living in dwellings on a permanent basis. Substandard conditions concerned 2.2 million people (9.6\%) in cities and 3.1 million people (21.0\%) in villages. Approximately 75\% of these stocks were owned by natural persons (dwellings for lease or dwellings established as a result of ownership transformations of the public housing stock), with 5\% of the stock owned by gminas. As regards the dwellings owned by gminas, half of them were built before 1945\textsuperscript{28}. The permanently occupied dwellings with substandard conditions constitute an important area of investment activities.

4.4. Employment in the sector of housing construction

Employment in the sector of housing construction constitutes a crucial share in the grey area. A large number of single-person construction companies remains unregistered. Statistical data concerning employment in the sector of housing construction are not available. There are only data pertaining to the entire construction branch, and they only include the companies which hire over 49 persons. The analysis of employment does not include the self-built housing investment mechanism.

At the turn of 2013, the construction industry employed 446 thousand employees in 1555 companies, which constituted 5.4\% of all the employed [GUS, 2014, p. 26].\textsuperscript{29} An average gross remuneration of the employees working in this industry floated at the level of the national average (3650 PLN) and amounted to 3728 PLN monthly [GUS, 2014, p. 27]. In spite of this, managers of construction companies list – as one of the greatest barriers for

\textsuperscript{27} Substandard dwellings include: a) dwellings located in buildings being in poor technical condition, i.e. buildings erected before 1970, dwellings in one-chamber buildings, dwellings built before 1945, without the sewage system, or before 1971, without the water supply system, b) overpopulated dwellings, i.e. 3 or more persons per room, unless these dwellings have been categorised to other groups of substandard dwellings, c) dwellings poorly equipped with basic installations, i.e. dwellings without toilets, yet with a water supply system and dwellings without toilets or a water supply system, located in buildings not categorised in the first group.

\textsuperscript{28}As regards the age of the housing stock, the dwellings administered by housing cooperatives are not as old as public dwellings. The majority of dwellings (nearly 70\%) were created in buildings which were put up in the years 1971–1988.

\textsuperscript{29} The GUS statistical data include exclusively these construction companies which employ more than 49 persons. There are no data concerning the construction companies which employ fewer than 49 persons.
development – the high costs of workforce, alongside bureaucracy, insufficient demand from the public sector, weather conditions, as well as the issue of a lack of experienced workforce (KPMG, 2013). It stems from the fact that there is a competition on the Polish market between domestic and foreign companies, including those from outside the European Union.

Employment in construction companies is relatively unstable, and it is not only due to its seasonal nature. One of the reasons is that the construction industry, and especially the infrastructural construction industry, ranks as first among the branches with the highest rate of bankruptcy (KUKE, 2014). The intensity of bankruptcy in the construction industry (the relationship of companies which face bankruptcy and the number of medium and large companies present on the market) amounts to more than 3.3%, with an average of 1.7% in Poland (KUKE, 2014, p. 3). In 2013, over 2600 persons (on average 14% of the total number of employees with unpaid remuneration) did not have their remuneration paid on time, which amounted to double gross remuneration on average (GUS, 2014, p. 46). It means that employment in the construction industry entails a higher risk of not receiving remuneration on time. Secondly, there are significant fluctuations of the production capacity of construction companies in Poland. They amount from 60 to 80%, depending on the economic conditions (KPMG, 2013). The changes in the supply of orders are reflected by the relationship between employers and employees. From the employers’ perspective, they also concern more flexible forms of employment: the share of civil-law agreements: commission agreements, contracts for specific tasks.

The construction industry in Poland faces the issue of the grey economy. In general, the grey economy involves three elements: illegal activities, hidden activities (lowering the income in legally-run companies), informal activities (consisting most frequently in working out of registration). The construction industry is associated mainly with the hidden and informal activities. According to the estimates of Instytut Badań nad Gospodarką Rynkową (Institute of Research on Market Economics), the grey economy constituted 19.9% of the GDP in Poland in 2013, with the construction industry being the second sector in terms of its share (Łapiński et al., 2014). Taking into consideration the data of the Central Statistical Office and the Institute of Research on Market Economics, it has been estimated that the
companies which provide construction services classified as the grey economy produced approximately 4% of the GDP in 2011. The main reasons for the existence of the grey economy in the construction industry include: a lack of any other than the informal possibility of lowering labour costs by construction companies (especially non-pay labour costs, i.e. the obligations due to the Polish Social Insurance Institution – ZUS), avoiding the employers’ obligations resulting from the labour law, especially concerning leaves and safety matters.

5. Housing consumption

5.1. Demographic conditions

The population grew from 37.9 million in 1988 to 38.5 million at the end of 2013. In terms of population, Poland is ranked 33rd in the world and 6th in the European Union. From a regional perspective, the fastest pace of the population growth was observed in mazowieckie [Warsaw], pomorskie [Gdansk], malopolskie [Krakow] and wielkopolskie [Poznan] voivodeships, whereas the slowest in opolskie [Opole], swietokrzyskie [Kielce], lodzkie [Lodz] and lubelskie [Lublin] voivodeships (GUS, 2014). Since the beginning of the 21st century, the birth rate in Poland is negative (with the exception of 2008-2011). The Polish General Census of 2011 estimated, for the first time, the residing population in Poland, which was 37.2 million people. This number includes the scale of Polish emigration abroad. At that time, 2.1 million Polish citizens resided abroad. The group of emigrants consisted mainly of persons who connected their temporary stay abroad with starting or looking for employment. Over 77% of temporary emigrants had stayed abroad for more than 1 year at the time of census taking (GUS, 2014).

The population of Poland consisted predominantly of the inhabitants of cities, constituting 60.8% of all the population (61.2% in 1988). In the first decade of the 21st century there was a shift in population from cities to villages, which is a new phenomenon in contemporary demographic process in Poland. These changes stemmed primarily from the migration of people from cities to the areas neighbouring with urban centres, yet set apart in administrative terms as rural areas.
According to General Censuses, the number of households increased from 12 million in 1988 to 13.6 million at the end of March 2011, whereas the dynamics of the growth fell drastically between the last censuses. An average number of persons in households went down from 3.10 in NSP 1988 to 2.82 in NSP 2011. Households residing in cities became smaller, from 2.9 persons in 1988 to 2.6 in 2002, to 2.5 in 2011, with a stable size of households in villages at the level of 3.4 in 2011. These changes result above all from smaller fertility and changes in the family model. Moreover, these changes led to the changes in the structure of households, i.e. there had been an increase in the share of single-person households from 18% in 1988 to 25% in 2002, stabilizing at the level of 24% in 2011 (20%, 28%, 27% respectively in cities). This increase stemmed from taking broader decisions by young persons to become independent, as well as from the occurrence of more and more single-person households consisting of the elderly, especially women [cf. GUS 2013, p. 3]. In the structure of households, especially in cities, two-person households became dominant [almost 26% share of the structure in NSP 2011, with over 28% in cites]. They were most frequently established by marriages without children or the elderly [GUS 2013, p. 3]. Larger households, consisting of four or more persons are still dominant in villages, constituting 44% of the total number of households in NSP 2011. Drawing on the initial results of NSP 2011, published on 29.01.2013, it may be concluded that approximately 75-78% of households reside by themselves, compared to over 76% in NSP 2002 [GUS 2013, p. 4]. The process of changes in the structure of households is a long-lasting one. Thus, there is an issue of the availability of data concerning the structure of households at the local level [particular towns or districts, in the case of large cities]. The comparison presented in the table below constitutes a summary of demographic conditions.
Table 6. Comparison of selected results of Polish General Censuses (NSP) of 1988, 2002, 2011

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (in thou.)</td>
<td>37.130</td>
<td>38.230</td>
<td>38.512</td>
</tr>
<tr>
<td>In cities in % of total</td>
<td>61%</td>
<td>62%</td>
<td>61%</td>
</tr>
<tr>
<td>In villages in % of total</td>
<td>39%</td>
<td>38%</td>
<td>39%</td>
</tr>
<tr>
<td>Population in households (in thou.)</td>
<td>No data</td>
<td>37.812</td>
<td>38.291</td>
</tr>
<tr>
<td>Number of households (in thou.)</td>
<td>11.970</td>
<td>13.337</td>
<td>13.572</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in cities</td>
<td>7864 (66%)</td>
<td>8965 (67%)</td>
<td>9150 (67%)</td>
</tr>
<tr>
<td>in villages</td>
<td>4106 (34%)</td>
<td>4372 (33%)</td>
<td>4422 (33%)</td>
</tr>
<tr>
<td>Average number of persons in a household</td>
<td>3,10</td>
<td>2,84</td>
<td>2,82</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in cities</td>
<td>(2,86)</td>
<td>(2,60)</td>
<td>(2,54)</td>
</tr>
<tr>
<td>in villages</td>
<td>(3,55)</td>
<td>(3,33)</td>
<td>(3,40)</td>
</tr>
<tr>
<td>Structure of households (in % of total)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single-person (in cities)</td>
<td>18,3 (20,3)</td>
<td>24,8 (27,7)</td>
<td>24,0 (27,2)</td>
</tr>
<tr>
<td>Two-person (in cities)</td>
<td>22,3 (23,5)</td>
<td>23,2 (24,7)</td>
<td>25,7 (28,3)</td>
</tr>
<tr>
<td>Three-person (in cities)</td>
<td>20,3 (21,9)</td>
<td>19,9 (21,1)</td>
<td>20,2 (21,2)</td>
</tr>
<tr>
<td>Four-person (in cities)</td>
<td>22,0 (23,2)</td>
<td>18,0 (17,5)</td>
<td>16,2 (14,9)</td>
</tr>
<tr>
<td>Five-person and more (in cities)</td>
<td>17,1 (11,1)</td>
<td>14,1 (9,0)</td>
<td>13,9 (8,4)</td>
</tr>
<tr>
<td>Population according to age (in percentage):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-productive (aged 0-17)</td>
<td>29,9</td>
<td>23,2</td>
<td>19,0</td>
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<tr>
<td>Productive mobile (aged 18-44)</td>
<td>No data</td>
<td>33,9</td>
<td>39,3</td>
</tr>
<tr>
<td>Productive immobile (aged 45-59/64)</td>
<td>No data</td>
<td>21,9</td>
<td>24,2</td>
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<tr>
<td>Productive (aged 60/65 and more)</td>
<td>No data</td>
<td>15,0</td>
<td>17,5</td>
</tr>
<tr>
<td>Population according to age (in percentage):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aged 18-29</td>
<td>16,7</td>
<td>19,4</td>
<td>18,5</td>
</tr>
<tr>
<td>Aged 30-59</td>
<td>38,8</td>
<td>40,5</td>
<td>43,0</td>
</tr>
<tr>
<td>Aged 60 and more</td>
<td>14,6</td>
<td>17,0</td>
<td>19,8</td>
</tr>
<tr>
<td>Population in dwellings (in thou.)</td>
<td>37.130</td>
<td>37.801</td>
<td>38.095</td>
</tr>
<tr>
<td>Residing population (in thou.)</td>
<td>n/a</td>
<td>n/a</td>
<td>37.244</td>
</tr>
<tr>
<td>Number of residents’ households***</td>
<td>n/a</td>
<td>n/a</td>
<td>13.207</td>
</tr>
<tr>
<td>Total number of dwellings (in thou.)</td>
<td>No data</td>
<td>12.524</td>
<td>13.495</td>
</tr>
<tr>
<td>Permanently inhabited dwellings</td>
<td></td>
<td>10.717</td>
<td>11.633</td>
</tr>
<tr>
<td>Temporarily inhabited dwellings</td>
<td>No data</td>
<td>131</td>
<td>8</td>
</tr>
<tr>
<td>Uninhabited dwellings</td>
<td>No data</td>
<td>760</td>
<td>962</td>
</tr>
<tr>
<td>Housing stock (in thou.)</td>
<td>10.717*</td>
<td>12.254**</td>
<td>13.102**</td>
</tr>
<tr>
<td>Number of residential buildings:</td>
<td>No data</td>
<td>5.382</td>
<td>6.107</td>
</tr>
<tr>
<td>Single-family in % of total</td>
<td></td>
<td>92%</td>
<td>90%</td>
</tr>
<tr>
<td>Multi-family in % of total</td>
<td></td>
<td>8%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Explanations: * Due to a lack of data, the number of inhabited dwellings has been assumed. ** It has been assumed that the housing stock consists of permanently inhabited dwellings and uninhabited dwellings, which may become permanently inhabited in the future (without dwellings used exclusively to conduct business activities and dwellings intended for demolition and abandoned dwellings; the author’s own estimates), *** the author’s own estimates – residing population by an average number of persons in a household amounting to 2.82.

In the years 1988-2011, the process of aging of Polish society became extremely visible. The number of children (aged 0-17) in the entire population stayed at a relatively stable level, i.e. 20% in 1988 and 19% in 2011, yet the number of the elderly (aged 60 and more) grew from 14.6% in 1988 to 19.8% in 2011. In the last decade (NSP 2002 and NSP 2011) there was a significant growth in the number of working age (mobile) persons (aged 18-44), from 34% to 39% of the total number of population, with a simultaneous drop in persons aged from 0 to 17 and a growth in the number of persons aged 45 and more. The number of retirement age persons increased by 760 thousand people between the censuses of 2002 and 2011 (GUS 2013).

5.2. Housing needs

Formulating housing needs may be analysed from two perspectives: macro (economic and social) and individual. The macro perspective, used in this work, makes it possible to identify the scale of satisfied and unsatisfied housing needs by identifying housing deficiencies and surpluses within the range of the entire country or given regions. Taking into consideration such factors as the demographic development, socio-economic development, technological advancement as well as wear and tear of existing residential buildings, one is able to reach general balances regarding the entire country and its individual regions, showing statistically the number of required dwellings and their average, socially justified standards. What is of crucial importance here is an analysis of the needs associated with the demographic development of the population, migrations and socio-economic transformations as well as an analysis of the needs for replacing the technically and functionally worn housing resources. Two questions arise in this area: Does every household which desires to live on its own have a possibility of leasing or purchasing a separate dwelling?; What is the size of the existing housing stock which, due to its technical or functional wear should not be used for housing purposes anymore (Żarski, 1974, p. 65). The other perspective emphasises an individual approach to housing needs, the diversity of these needs and the changeability of the needs of the same individual with time. Individual needs are qualitative in their character. They specify, in particular, various requirements in terms of the forms of housing, types of development, size and layout of
dwellings, equipment and furnishings, level of décor. When presented statistically, these requirements make it possible to determine the qualitative structure of the balance of housing needs (Czeczerda, 1974, pp.121-122).

Based on the data from the Polish General Census of 1988, 2002 and 2011 and on the current data published by the Central Statistical Office, the difference between the housing stock and the number of households in Poland between 1989 and 2013 has been estimated (table 7). As a result, it has been concluded that there occurred a great change in terms of formulating housing needs from the macroeconomic perspective. In the period from 6 December 1988 to 31 March 2011 there was a significant decrease in the housing deficit from 1.3 million to 0.5 million, taking into consideration the category of permanently inhabited households (with actual inhabitants).  

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31 A household is understood as a group of related or unrelated persons who live together in the same dwelling, sharing meals or living space. If any of the persons living together earns their own living, they form a separate single-person household [GUS, 2002, 2011].
32 Population, referred to as actual population in censuses, consists of the following groups of persons: 1. Permanently residing persons who: a) were present at the time of census taking; b) were absent at the time of census taking, but their absence lasted shorter than 3 months; c) were absent at the time of census taking for more than 3 months, but their absence resulted from: being held in prison or remand centre; staying abroad. 2. Temporarily residing persons who have been away for a period exceeding 3 months. It concerns persons who live abroad permanently [their registered place of permanent residence is abroad], yet they reside temporarily in the place where the census is taken for such reasons as: education, work, family or living circumstances, treatment or rehabilitation, stay in a rest home. The time of temporary absence or presence is assumed to be the intended time. The category of actual population does not include persons who have arrived from abroad for a temporary period of time, i.e. persons who do not have a place of permanent residence in Poland (a settlement permit). (GUS 2012b, p. 32).
Table 7. Forming housing needs from the macroeconomic perspective

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing stock minus households</td>
<td>-1.253</td>
<td>-813</td>
<td>-459</td>
</tr>
<tr>
<td>Housing stock minus temporarily inhabited households</td>
<td>n/a</td>
<td>n/a</td>
<td>-105</td>
</tr>
<tr>
<td>Dwellings in total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanently inhabited dwellings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporarily inhabited dwellings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uninhabited dwellings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing stock</td>
<td>No data</td>
<td>12.524</td>
<td>13.495</td>
</tr>
<tr>
<td>Population</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households</td>
<td>10.717</td>
<td>12.254**</td>
<td>13.102**</td>
</tr>
<tr>
<td>Temporarily residing population</td>
<td>37.130</td>
<td>38.230</td>
<td>38.512</td>
</tr>
<tr>
<td>Households</td>
<td>11.970</td>
<td>13.337</td>
<td>13.572</td>
</tr>
<tr>
<td>Temporary (or inhabited households)***</td>
<td>n/a</td>
<td>n/a</td>
<td>37.244</td>
</tr>
<tr>
<td></td>
<td>13.207</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Explanations: * Due to a lack of data, the number of inhabited dwellings has been assumed, ** it has been assumed that the housing stock consists of permanently inhabited dwellings and uninhabited dwellings, which may become permanently inhabited in the future (without dwellings used exclusively to conduct business activities and dwellings intended for demolition as well as abandoned dwellings; the author’s own estimates), *** the author’s own estimates – residing population by an average number of persons in a household amounting to 2.82.


In the case of temporarily inhabited households\(^3\) (excluding persons who stay away from their place of residence for a period exceeding 12 months), the housing deficit amounted to a mere 0.1 million at the end of March 2011 [Table 6]. It is estimated that there were 392 thousand dwellings commissioned from April 2011 to December 2013 in Poland. Assuming an annual liquidation rate of the existing housing stock at the level of 0.2%, an annual number of demolished dwellings has been estimated to be 27 thousand. Thus, a statistical difference between the number of dwellings and the number of temporarily inhabited households has been positive since 2012. Nationwide, there occurred a transition

\(^{3}\) Residing population includes: a) permanent inhabitants, except for persons staying away from their place of residence for a period of at least 12 months – regardless of their place of stay (in the country or abroad – except for Polish diplomats staying in diplomatic agencies and soldiers conducting foreign military missions); b) persons who have come from another part of the country or from abroad (foreigners without a place of permanent residence in Poland), living temporarily for a period of at least 12 months. A criterion of population migration applied while differentiating the categories of residents includes such aspects as: education, work, family or living circumstances, treatment or rehabilitation, stay in a rest home. It means that persons staying in prisons or remand centres are classified as the residents of the towns in which they used to live before they were “forced” to leave [GUS, 2012b, p. 33].
This project has received funding from the European Union’s Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

from housing deficiency to housing surplus. It seems justified to discuss at this point two factors which play a key role in conducted estimates, i.e. households and the housing stock.

5.3. Housing prices and affordability

Average dwelling prices in Poland in the period between 1 qu. 2006 and 1 qu. 2014 were related to the above-presented course of a housing cycle, despite the occurrence of downward rigidity of dwelling prices and delay in price changes in relation to quantitative changes on the housing real estate market. Average dwelling prices in Poland in 1 qu. 2014 returned to their level from 1 qu. 2007, i.e. 6,200 PLN/m² (ca. 1200 GBP/m² or 1500 EUR/m²), whereas the prices in Warsaw differed from the prices in other Polish cities (fig. 10).

For an average gross remuneration [in the enterprise sector] in Poland one could purchase from 0.5 m² to 0.9 m² of a dwelling, depending on the phase of the housing cycle (Cf. Łaszek, 2014, p. 11). Consequently, the degree of satisfying the housing needs is greatly dependent on the possibilities of raising a housing loan.

Figure 10. Average transactional prices for dwellings on the primary market in Poland in the period between 2006-2014

Source: Analysis based on the data of the National Bank of Poland.
6. Housing finance

6.1. Housing loans

An increase in loans for the non-financial sector in Poland is one of the highest in the EU countries. From the period between December 2008 and March 2014 it amounted to almost 40% (fig. 11). The share of housing loans in PLN to households and foreign currency housing loans to households in the structure of loans to the non-financial sector grew from 10% in 2003 to 41% in March 2014 (fig. 12). At the same time, the share of foreign currency housing loans decreases in favour of the loans taken out in PLN (NBP, 2014, p. 32).

Figure 11. Growth in loans to non-financial sector in the period 12.2008 – 03.2014

Source: based on the data of the National Bank of Poland (2014, p. 32).
Figure 12. Structure of loans to the non-financial sector

Explanation: until November 2007 loans to SMEs were included together with loans to large enterprises.

Source: based on the data of the National Bank of Poland [2014, p. 32].

The housing loan debt of households has grown in Poland from 0.24% of GDP at the end of 1996 to 20.49% of GDP at the end of 2013. At the end of March 2014, the debt amounted to 339 billion PLN, with the GDP value of over 1.6 trillion PLN [figure 13]. A large part of this debt is denominated in foreign currency, mainly in Swiss franc, with a floating interest rate, without an own contribution, for the period of 30 years [compare figures 13 and 14]. The growth in the households’ debt due to the loans denominated in foreign currency [mainly in Swiss franc and in euro – 2010-2011] took place in the years 1999-2011, constituting approximately 70% of new housing loans in 2008 [figure 14].
Figure 13. Housing loan debt in Poland in the period between December 1996 – March 2014 r. (in million PLN)

Source: Based on the data of the National Bank of Poland.

Figure 14. Currency structure of new housing loans to households

Source: Based on the data of the National Bank of Poland.

There are a few direct conditions for the growth in the households’ housing loans denominated in Swiss francs and euros including: 1) the disparity in interest rates, i.e. lower interest rates of the loans in CHF and EUR than those in PLN, 2) favourable currency movements between PLN/CHF and PLN/EUR, and especially the appreciation of PLN to CHF between 2005-2008, 3) the necessity of raising larger loans resulting from higher prices for dwellings.

There were also certain indirect conditions, including: 1) a lack of an alternative (in relation to commercial banking) mechanism of financing housing investments by households, 2) slow regulations and actions of the state with respect to the changes in the currency structure of housing loans, 3) inefficient information policy directed at citizens concerning the consequences of raising loans in foreign currency which is not the currency of their remuneration. It seems justified to analyse these conditions in detail.
The phenomenon of the disparity between interest rates means lower interest on loans denominated in foreign currency than those in domestic currency. Figure 15 shows the interest rates of housing loans in Poland compared with an average in the European Union states and with Switzerland. The cost of a housing loan was nearly twice as high in Poland than an average in the EU and Switzerland. Lower interest rates of the loans denominated in foreign currency depicted in figure 16 constituted an important condition increasing the demand for this kind of bank products. In the Polish finance system, based on a floating interest rate, there was a transfer of risk to the borrower, including both the risk of change in the interest rate and the risk of change in the currency exchange rate. The resulting currency structure of housing loans which has been created is a negative aspect of the process of housing financialisation.

**Figure 15. Housing loan interest rates in Poland compared to an average in the European Union states and in Switzerland**

![Graph showing interest rates over time](image)

Source: Based on the data of the International Monetary Fund.

**Figure 16. Real interest rate of new housing loans for households in PLN, CHF, EUR**

![Graph showing real interest rates over time](image)

Source: Based on the data of the National Bank of Poland.
Among the direct conditions there should also be included favourable changes in the exchange rate between PLN/CHF and PLN/EUR, especially the strengthening of PLN to CHF in the years 2005-2008 (fig. 17). The expectations concerning the exchange rate were adaptive in their character, and there prevailed an assumption that Swiss franc was a stable currency. At the same time, lower housing loan instalments and the possibility of raising larger loans encouraged young people to this kind of housing investment finance. Furthermore, there occurred a phenomenon of social proof, i.e. everyone raised housing loans denominated in Swiss francs, so individuals started to take the responsibility off themselves and put it on the society or the state [Zarzecki, 2014, p. 2]. Thus, a considerable group of borrowers did not take into consideration the repercussions of borrowing in a foreign currency, which was not the currency of their remuneration.

Figure 17. Exchange rate of PLN in relation to EUR and CHF in the period between January 1996 r. and April 2014 r.

Source: Based on the data of the National Bank of Poland.

The price weakening of PLN in relation to CHF from the level of 2.01 PLN/CHF in July 2008 to 3.44 PLN/CHF in June 2012 caused a drastic increase in the value of housing loans in comparison to the security value. For example, raising a housing loan of 100,000 CHF, i.e. 201,000 PLN in July 2008 meant 340,000 PLN in June 2012. The Polish Financial Supervision Authority has conducted a detailed simulation of the value of the housing loan debt in CHF and PLN [fig. 18]. What follows from the results of the simulation is a clearly noticeable foreign exchange risk, which caused a drastic growth in the housing loan debt in June 2008.
Figure 18. Simulation of the Polish Financial Supervision Authority for housing loan debt in PLN and CHF raised in June 2006 and June 2008 respectively

Explanations: left scale: amount of debt in thousand PLN, red line – amount of housing loan debt in CHF, blue line – amount of housing loan debt in PLN, loan in the amount of 300,000 PLN.

Source: Based on Kwaśniak (2011).

Another direct condition for the development of foreign currency loans was a necessity to raise larger loans resulting from a dynamic increase in dwelling prices in 2006-2008 (fig. 19). In the analysed period, foreign exchange loans were less expensive, and thus it was more likely that the indebtedness in foreign currency would be larger than that in the domestic currency. In order to increase the amount of finance, borrowers decided to extend the term of loan to over 25 years. Such decisions caused a considerable increase in the interest strain with an insignificant decrease in monthly capital and interest payments.

Figure 19. Transactional prices for 1 m2 of dwellings on the primary market in selected Polish cities

Source: Based on the data of the National Bank of Poland.

A crucial decrease in the value of the foreign currency housing loan portfolio has been noticed only since 2012, and took place as a result the implementation of
Recommendation S by the Polish Financial Supervision Authority\textsuperscript{34} and an increase to 100% of risk weights for foreign currency housing loans\textsuperscript{35}. Consequently, foreign currency loans may be granted only to those clients who fulfil high requirements concerning creditworthiness. Thus, there appeared a clear discrepancy between one of the goals of the monetary policy, i.e. ensuring stability of the finance system, and a goal of the housing policy connected with the creation of conditions for purchasing (leasing) dwellings by all citizens. The conflict of interest appeared due to the fact that the system of housing finance was based on just one pillar – the commercial banking mechanism which refinanced housing loans primarily with deposits or parent companies of the capital group of a given bank\textsuperscript{36}. This issue is further discussed in subsequent sections.

Direct actions of the state in order to gradually eliminate the problem of foreign currency housing loans were limited only to subsidising the interest of housing loans raised in PLN. The above-presented governmental program of support for families buying their first own dwelling “Rodzina na Swoim”\textsuperscript{37} [A Family’s Own Place], realised in 2007-2012, had a positive influence on the change of the then prevailing trend for raising housing loans in foreign currencies. The information policy of the state aiming at making the citizens aware of the dangers of the currency risk was too slow. A crucial campaign in this respect began only in 2011 [See more Lis, 2012].

\textsuperscript{34} Resolution no. 18/2011 of the Polish Financial Supervision Authority of 25 January 2011 on the issuance of Recommendation S concerning good practices in terms of the mortgage-backed loan exposure, J.L. of 2011, no. 3 item 6 (D.U. KNF of 2011, no. 3, item 6). This resolution states that the process of acceptance of the loan exposure should involve an assessment of creditworthiness and types of risk connected with a transaction. While making the assessment of creditworthiness, if the projected repayment period of the exposure exceeds 25 years, the bank should assume the period of 25 years in the process of the assessment of creditworthiness. In the case of foreign currency retail loan exposures for real estate finance and foreign currency retail mortgage-backed loan exposures, the maximum level of the relationship between the expenditure associated with loan servicing and the average net income of the persons obliged to repay the debt should not exceed 42%.

\textsuperscript{35} Resolution no. 153/2011 of the Polish Financial Supervision Authority of 7 June 2011 amending resolution no. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed principles of establishing the capital requirements associated with particular types of risk, D.U. KNF of 2011 r. no. 8, item 29.

\textsuperscript{36} At this point, I am still not introducing the division into three main strategies – universal bank models in Poland: the deposit model, foreign funding model and mixed model. I reckon that the assumed strategies do not change considerably at this point the main conclusions from the analysis.

\textsuperscript{37} State assistance consisted in financing 50% of the housing loan interest for eight years, beginning from the date of repayment of the first instalment. Housing loans under this programme could be granted only in PLN. The limitations concerned also the maximum area and price of a square meter of the purchased or built dwelling.
In sum, the households’ foreign currency housing loan debt in 1999-2011 had an extremely negative effect on the shape of the housing system of provision. It definitely contributed to social stratification between the households indebted in foreign currencies (CHF, EUR) and those indebted in PLN.

6.2. Reverse mortgage
A reverse mortgage does not formally exist in Poland. Thus, the phenomenon of liquidating financial resources obtained from the real estate ownership right for the purposes of current consumption seems relatively marginal. However, it is likely that there will be an increase in financialisation in this aspect resulting from a plan of the government to introduce appropriate legal regulations in this area\(^ {38}\). There seems to be a significant demand for this kind of instrument, which results from such factors as the process of aging of the society, pace of economic development, current and future condition of public finance, ownership structure of the housing stock in Poland. Another factor is the introduction of amendments to the pension system\(^ {39}\) which marginalise the role of Open Pension Funds (institutions of the capital market) in favour of Zakład Ubezpieczeń Społecznych (Polish Social Security Institution), given future pensions forecast at low-levels compared to currently received remuneration (Przegląd ...2013).

6.3. Lending institutions
Housing loans are of growing importance for lending institutions in Poland. Their participation in all households’ loans at the end of 2012 amounted to 62%, compared to 73%

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\(^{38}\) The Bill of the Act on the reversed mortgage was submitted to the government by the Minister of Finance on 29 April 2014. This Bill has been under design since 2010. It will be a special kind of a loan agreement, allowing banks to provide financial means which will be paid off only after the borrower’s death, in return for collateral in the form of real estate to which the borrower is entitled in a certain manner (by ownership, joint ownership, cooperative ownership right to premises, right of perpetual usufruct of land). The Bill contains solutions addressed primarily at the elderly, yet there is no age restriction for the persons entering a reverse mortgage agreement. This makes it possible for such persons to obtain additional financial means for their current needs (consumption, medical services, etc.), which will be derived from the capital accumulated in real estate.

\(^{39}\) The Act of 6 December 2013 on altering certain acts in connection with specifying the principles of paying pensions with the resources from open pension funds, Journal of Laws of 2012, item 1717 ([Dz. U. z 2013 r. poz. 1717]).
in the Euro zone countries. Nonetheless, the dynamics of changes in housing loans is still high. Thus, the structures of the finance system should keep up with the processes which take place on the finance market.

Let us analyze here the structure of the market subsystem of housing investment financing. This structure is composed of the mechanisms which allow credit institutions to obtain financial means for granting housing loans. Among these mechanisms there are the following: 1) deposit mechanism, otherwise known as commercial banking mechanism, 2) contract mechanism, 3) mortgage banking mechanism (covered bond mechanism), 4) securitization mechanism (cf. Lea, 1999; Lis 2008; Chiquier, Lea, 2009; Główka 2010, Lis, 2012). It is emphasized that credit institutions in contemporary financial systems more and more frequently use the mechanisms which make it possible for them to effectively obtain financial means for strengthening credit lending. Nonetheless, let us take an insight into the above presented mechanisms. The form of refinancing housing loans (acquiring resources for new loans) is thought to be the key determinant of the housing system of provision. In Poland, the prevailing mechanism is the deposit mechanism.

In the deposit mechanism (commercial banking mechanism), housing loans are refinanced with individual savings of households and businesses, put aside in credit institutions as savings deposits or time deposits. Citizens’ deposits play a vital role as a refinancing source of housing investments, especially in the economies which do not have well-developed secondary market instruments, such as: covered bonds or mortgage-backed securities. The creditors, in this case, are mainly commercial banks, universal banks, but also cooperative banks or credit unions (cooperative savings and loans organizations), which entered the market of long-term mortgage loans as a competitive action. These institutions aim at attracting customers for a long time, which makes it possible to obtain a higher rate of return on operating activity (Jaworski, Krzyżkiewicz, Kosiński, 1999, p. 124).

The citizens’ deposits used in refinancing housing loans do not meet the basic financial principle connected with adjusting the liquidity of assets to the maturity of liabilities. However, the process of financial liberalization led to the development of the source of housing loans refinancing which used to be regarded as unacceptable. Thanks to
liberalization, central banks in Europe (and the United States and Canada) had the possibility to provide additional financial resources to the interbank market, in order to maintain the turnover liquidity in case of crisis. Additionally, the process of introducing deposit insurance systems in the countries of the former European Economic Community was accelerated (from 1986)\(^\text{40}\). These actions encouraged credit institutions to use some of their deposit base to refinance granted housing loans. This peculiar security buffer is a justification for commercial banks (being more and more frequently universal in their character) to breach the basic principle of financing (Ahlswede, 2011).

Let us now look at some fundamental advantages and drawbacks of the deposit mechanism (see more in Lis, 2008; Lis, 2013). Deposits constitute a relatively stable and inexpensive source of housing loans refinancing, assuming that the banking sector infrastructure is already well-developed\(^\text{41}\). When the effect of returns to scale has been achieved, housing loans refinancing with the instruments based on the capital market, may be cheaper than refinancing with deposits\(^\text{42}\). Considering the diversification of the entire credit portfolio as a method of the total credit risk management, the banks’ involvement in the market subsystem of financing will increase the diversity of assets. Some bank assets are not connected with the residential real estate market (cf. fig. 8). A long-term housing loan makes it possible for banks to offer their debtors new financial services. Vertical integration within commercial banking allows creditors to avoid transfer costs of individual financial functions. The issuer, owner and servicer of granted mortgage loans is a commercial bank. Nonetheless, one consequence of supplying with deposits is the housing loan with a floating rate. The interest rate risk is fully transferred to the bank’s client,

\(^{40}\) Directive 94/19/EC of the European Parliament and the Council of the European Union of 30 May 1994 on deposit-guarantee schemes introduced a requirement for the existence of deposit guarantee systems in all EU member states.

\(^{41}\) An average cost of deposits in Polish banks was shaped below the WIBID rate (Warsaw Interbank Bid Rate), i.e. the rate at which banks are willing to pay for depositing means for their use (Główka, 2010, p. 109).

\(^{42}\) According to M. Lea’s studies, the cost of acquiring funds from the capital market in the United States is lower than the cost of acquiring deposits. In the last decade, the UK has also dynamically developed its capital market, which resulted in a change in the relationship between the deposit cost and the cost of assets from the capital market. These results must be completed with an assessment of housing finance systems conducted in 2003 by Mercer Oliver Wyman, a company which points at two more countries - Denmark and Germany, in which capital market funds are cheaper than the costs of acquiring deposits (Lea, 2000; Wyman, Low, Sebag-Montefiore, Dübel, 2003).
This project has received funding from the European Union’s Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800.

Similarly to the foreign exchange risk in the case of housing loans denominated in foreign currencies.

Cyclical fluctuations of deposits as a source of credit refinancing, including housing loans, are reflected by cyclical fluctuations of the GDP as a reference variable lagged several quarters. To illustrate the above relation, figure 20 presents cyclical fluctuations of deposits and loans in Poland in relation to the GDP as a reference variable. In this case, the deposit lagged six quarters compared to the reference variable. As a consequence of this economic slowdown, there usually occurs a decrease in the number of deposits in the following periods, whereas when there is an economic revival, the number of deposits may increase. Nonetheless, deposit volatility is incomparably smaller than loan volatility [Lis, 2013].

Figure 20. Cyclical fluctuations of deposits and loans in Poland between 4qu.1996-1qu.2012

Explanations: time series in logarithms, filtered with the Census X12 method, cycle isolated using Christiano – Fitzgerald filter. Grey areas mean economic slowdown areas under the definition of the contemporary economic cycle. GDP as a reference variable.

Source: self-analysis on the basis of the National Bank of Poland and CEIC data.

Credit institutions, based to a large degree on the deposit mechanism, tend to engage impulsively in financing of the housing system of provision, i.e. the engagement is high during the time of relatively stable house price growths and low when the price trend
is reversed. The first case may lead to the occurrence of a funding gap\textsuperscript{43}. Filling this gap is possible with the use of financial means from foreign institutions, especially with strong ownership connections between credit institutions running in various countries. Furthermore, the interbank market activity increases, especially in the deposit transaction segment (insured and uninsured deposits). Short-term uninsured debt instruments and interbank loans or wholesale deposits are extremely sensitive to external factor changes (cf. Ahlswede, 2011, p. 2). The deposit mechanism in Poland does not ensure stability of housing investment finance regardless of the economic condition. A negative shock connected with the financial crisis in the United States was reflected by a decrease in the number of housing loans granted in Poland (Lis, 2013).

A dynamic growth in the number of loans granted by Polish banks, with the banks’ deposit base growing at a slower pace, contributed to the widening of the financial gap, which stood out in full relief especially in the period of financial turmoil, i.e. from the 4th quarter of 2008 to the 1st quarter of 2009. Under stable conditions, Polish banks fill up this gap by means of financial resource loans on both domestic and foreign interbank markets, by obtaining deposits from non-bank financial institutions and by issuing securities. The bankruptcy of the American bank Lehman Brothers on September 15, 2008, caused a significant growth in the contracting party’s risk on world markets and resulted in reductions in interbank transaction limits as well as a decrease in financial markets liquidity. A consequence of the international market turmoil was a reduction in mutual transaction limits among banks in Poland. Banks reacted in various ways to this situation, depending on the model (strategy) of refinancing granted loans. There are three such models: deposit, foreign funding and mixed models, whose financial structure is presented in figure 21. The deposit model, realized by 22 institutions, banks rely their development on acquiring the deposits from the non-financial, government and local-government sector. In the foreign funding model, realized by 16 institutions, the source of means were the foreign owners of Polish banks. In the mixed model, realized by 31 institutions, it is difficult to indicate a predominant refinancing source. Finally, it must be mentioned that the

\textsuperscript{43} Funding gap – a relationship between the remainder of loans and deposits to loans. Loans and deposits include operations with entities from the non-financial, government and self-government sectors (NBP, 2009).
participation of banks with particular financing strategies in the commercial banks assets amounted in April 2011 to 62% in the deposit model, 23% in the mixed model and 15% in the foreign funding model (NBP, 2011).

Figure 21. Financing structure in Polish banks according to an applied strategy, March 2008 - April 2011

Explanations: A – deposits from non-financial, government and local-government sectors, B – liabilities to financial entities – residents, C - liabilities to financial entities – non-residents, D – liabilities from repo transactions of NBP, E – assets, F – other liabilities.

Source: self-analysis on the basis of the National Bank of Poland data.

Banks which realized the deposit strategy and the mixed strategy to some extent began a competitive fight for citizens’ deposits in the 4th quarter of 2008, in the face of limited availability of resources on the interbank market and problems with filling up the financing gap. As a result, the deposit interest rate increased, leading to a considerable increase in the source of refinancing housing loans during financial turmoil. Banks in the mixed model, on the other hand, received only the indispensable financial supply from their western owners, inhibiting at the same time credit lending. This aid from foreign owners of Polish banks contributed to some extent to maintaining stability of the domestic financial system, yet it did not contribute in any degree to a balanced development of housing financing. Moreover, this mechanism inhibited the financing of housing investments conducted by developers. It appears that the main issue was the uncertainty concerning the participation of non-performing loans in the credit portfolio of financial institutions and higher refinancing costs of future housing loans. It must also be highlighted that universal banks in Poland realized to some extent the strategy of their foreign owners, who many a time had liquidity problems themselves resulting from the turmoil on global financial
markets. In such a case, the foreign owners decided about the scale of financial system supply for their banks in Poland.

To sum up, the deposit mechanism perfectly fits the developed infrastructure of the banking sector, with deposits being a relatively cheap source of housing loans refinancing. Problems begin with dynamic credit expansion and a rapid increase in the participation of housing loans in credit institutions’ assets. Such a situation causes a growth in liquidity risk, which imposes higher activity on banks in acquiring capital, which in turn will be short-term in character and much more sensitive to economic turmoil compared to deposits. The deposit mechanism transmits external impulses, which has been shown on the example of Poland. It stems in this case from the connections between the credit institutions running in Poland and their foreign investors. The costs of regulating the liabilities to these entities constitute to some degree the running costs of this mechanism. An additional, obvious cost is transmitting negative shocks from the global economy to the domestic system of housing financing. However, this mechanism offers in return, housing loans with a floating rate only, transferring the risk it entails to the debtor. Furthermore, in order to lower financing costs, banks offered loans denominated in foreign currency, thus also transferring the currency risk to the debtor. Only after a very expensive government program and the Financial Supervision Authority’s actions are implemented does this unfavorable structure of granted loans change.

The mortgage banking mechanism (covered bond mechanism) plays a marginal role in the process of housing investment finance in Poland. Paradoxically, this mechanism has a very long tradition in the Polish system of finance, dating back to 1769. The European market of covered bonds became one of the largest segments on the capital market in the years 2003-2010. As is indicated by the experience of the European countries in which this mechanism has been used, in the face of the American financial crisis (4 qu. 2008 – 1 qu. 2009) the issuance of covered bonds declined. However, they regained the investors’ trust relatively quickly, reaching historical values of issuance in 2010. The mortgage banking mechanism could serve as a perfect supplement to the deposit mechanism in Poland, and consequently offer stable supply of the housing system of provision (See more in: Lis, 2008, Główka, 2010, Kwaśniak, 2011). Only as a result of the crisis on the global financial market
did crucial changes take place in the regulatory environment of the banking sector at the community level. On June 26 2013, the so-called CRD IV package was adopted. This package allowed for some crucial changes in the short and long-term liquidity norms. Particular attention shall be paid to the requirement of maintaining a minimum acceptable level of stable funding, based on the asset liquidity characteristics and the bank’s activities within one year. The long-term liquidity indicator will impose structural changes in the institutions’ liquidity profiles, by departing from the short-term funding mismatch, towards more stable, long-term asset funding and the bank’s activities (Projekt zatożeń ..., 2014). The bill submitted by the Minister of Finance of 16 January 2014 aims at broadening the use of the mortgage banking mechanism in Poland by removing the barriers in the development of this mechanism in the specialist version [See more in Lis, 2011]. It has to be highlighted that covered bonds are an exceptionally efficient, long-term financial instrument, very safe and stable, especially in the times of crisis [See more: Dick-Nielsen, Gyntelberg, Sangill, 2012; European Central Bank, 2008; European Covered Bond Council, 2009-2013; Financial Stability Report 2014:1; Spangler, Werner, 2014]. The financial support to the housing system of provision using the covered bonds mechanism in the specialist version would be a very good solution. It would make it possible, among all, to introduce a mortgage loan in PLN, based on a fixed interest rate. It would further activate the financial resources remaining in Open Pension Funds, which could support housing investments, working in this way for future pensions of a part of the society.

In sum, the housing investment finance mechanism in Poland, which refers to the deposit model, is connected with the situation on international markets, yet not by the issuance of mortgage-backed securities or covered bonds, but by their foreign owners who – in the case of turmoil on global financial markets – move the impulses to the Polish financial market. In my opinion, this mechanism does not ensure stable funding of the housing system of provision. Housing in Poland serves as a good investment, taking into consideration the conditions of the sector as well as the criterion of minimising risk at a given rate of return. This part of the real sphere of the economy, in my view, should be supplied with the capital market resources coming from pension funds or insurance companies. Furthermore, it shall be added that the perspective for investing, especially as
regards pension funds, is coherent with the durability of assets in the form of real estate. Nowadays, however, it is possible to supply a simple deposit mechanism with the resources of financial entities, non-residents (especially in the foreign funding and mixed strategies). The costs of settling liabilities with these entities constitute certain costs of operating such a mechanism. An additional cost is obviously facing the negative shocks from the global economy by the national system of housing finance. In return, this mechanism offers housing and construction loans with a floating interest rate only, transferring the risk onto the borrower. Furthermore, in order to lower the costs of funding, banks offered foreign currency loans, also transferring the foreign exchange risk onto the borrower. Only after implementing a very costly government program and the actions of the Polish Financial Supervision Authority has this unfavourable structure of granting loans changed. A serious consequence of introducing these actions, without making any changes in the system, is the decline in the availability of housing loans for households, which limits the functioning of the housing system of provision.

7. The role of the State in housing finance
Beginning on 2 April 1997, i.e. the date of adopting fundamental rights in the market economy for the state of Poland, a desire to satisfy the housing needs of households by the public authorities has been given constitutional importance. In accordance with Article 75, paragraph 1 of the Constitution of the Republic of Poland:

“Public authorities shall pursue policies conducive to satisfying the housing needs of citizens, in particular combating homelessness, promoting the development of low-income housing and supporting activities aimed at acquisition of a home by each citizen”.

The Constitution does not allow for the citizens’ demanding attitude towards the state, unsupported by their own effort to satisfy their own housing needs. A question arises at this point concerning the principles of determining a mutual system of rights and obligations of households, companies and the state in terms of satisfying the housing needs (See more Rataj, 2014). The concept of the right to abide encompasses such elements as: the right to choose the form of ownership, the right to reside in a dwelling whose standard
is not derogatory to human dignity as well as the right to change the place of residence\textsuperscript{44}. State intervention in the area of housing may be divided into direct and indirect.

Direct state intervention in housing is associated with support of such households which have not been able to purchase/lease dwellings on market principles due to their specific life situation. Poland reflects the conception of selective rather than universal housing policy. A fundamental problem in Poland is defining strategic goals and selecting adequate instruments of housing policy matching these goals. The questions concerning the definition and scope of the social housing stock in Poland, the principles of allocation in the stock and the matter of indicating target groups, or the conditions for excluding tenants who do not fulfil the criteria pertaining to the social housing stock, remain open.

In the author’s opinion, the inability to incorporate housing cooperatives into the area of the social housing policy is a failure of housing policy. Such a form of realising housing investments has considerable organisational potential, given meagre capital resources. Housing cooperatives possess considerable housing resources, which they administer more and more efficiently, and thus they should not – under any circumstances – be considered as a relic of the by-gone political and economic system. Mass ownership transformations in the cooperative housing stock, connected with a final liquidation of cooperative tenant rights to premises and creation of ownership rights to dwellings from cooperative ownership rights, may be regarded as actions limiting the possibilities of realising the main goals of housing policy with the use of this form of housing.

Consequently, it may be assumed that the direction of the contemporary housing policy is the remaining variant – the social one. A target group of the direct support from the state are mainly persons with low income, whose needs should be satisfied by gminas within the public housing stock. However, it shall be noted here that there is a considerable historical backlog in this area. The needs regarding social dwellings exceed the total amount of annual investments. Although filling this gap is a long-term process, it would make it possible to gradually improve functioning of the market subsystem of housing finance (e.g. evictions which have been ordered, but not yet executed) and – above all –

\textsuperscript{44} See: A. Andrzejewski, Polityka mieszkaniowa [Housing Policy], Wydanie trzecie zmienione, Państwowe Wydawnictwo Ekonomiczne, Warszawa 1987.
increase the potential of private housing investments connected with the creation of the
stock to be leased.

It may be observed that there is a tendency in numerous European Union states to
include various housing organisations in the process of constructing and supplying social
dwellings. In Poland, these organisations may include the Associations of Social Housing
(TBS) and housing cooperatives, yet to a marginal degree. The state’s assistance in terms
of compensation to housing organisations for lost benefits due to their involvement in social
housing is acceptable in the European Union. Such assistance may be given directly to the
entities which make housing investments or indirectly with the engagement of public
institutions such as housing funds or national banks. Until 2 April 2009, there existed a
mixed option in Poland consisting of the National Housing Fund (KFM) in Bank
Gospodarstwa Krajowego (BGK) (National Economy Bank). The tasks of the Fund, after its
liquidation, were taken over by Bank Gospodarstwa Krajowego, supporting government
socio-economic programs and local government programs of regional development. On the
one hand, the state’s actions seem justified due to the costs of having two institutional
solutions in one entity. Liquidating the National Housing Fund is expected to allow Bank
Gospodarstwa Krajowego to realise directly government programs in the area of housing
with the bank’s own means and on its own account. The current regulations concerning the
tasks of Bank Gospodarstwa Krajowego are much clearer than the previous tasks of the
National Housing Fund. Bank Gospodarstwa Krajowego shall support government housing
programmes by: a) granting subsidised loans to the associations of social housing and
housing cooperatives to be used for investment and construction purposes aiming at
providing premises for rent as well as b) granting subsidised loans to gminas for the
realisation of the public technical infrastructure which accompanies housing construction.
On the other hand, Bank Gospodarstwa Krajowego has been imposed with a wide range of
tasks not only within the scope of housing but also export, overcoming the effects of natural
disasters or facilitating the absorption of EU means by local governments. Thus, a question
arises concerning the priority of realisation of individual tasks. Moreover, such a solution
limits the possibility of obtaining funds for housing finance from extra-budgetary sources:
issue of mortgage bonds or asset-backed securities. A condition which determines the
application of extra-budgetary supply is, in fact, the functioning of a clear and stable segment of social housing for rent under the complex conception of housing policy. In the organisational formula of Bank Gospodarstwa Krajowego such a solution is currently much more difficult. Furthermore, some attention should be paid to the fact that including the mortgage banking market mechanism or securitisation mechanism into the goals of the social housing policy will be very difficult at the times of financial disturbances or crises. Nonetheless, with limited funds from the state’s budget, an idea of using other forms of funding the housing policy goals seems to be of crucial importance.

In the area of indirect state intervention regarding housing, it seems worth highlighting the instruments such as financial regulations and subsidies. The former include primarily the regulations of the system of housing investment finance concerning proceedings connected with land and mortgage registration and the process of property execution. The latter include the above-presented programs of “Rodzina na swoim” and “Mieszkanie dla Młodych”, which give support to citizens purchasing their first dwelling with the use of housing loans.

The efficiency of the system of land and mortgage registration may be perceived by the promptness and costs of registration proceedings, availability of real estate information, reliability of information regarding ownership relations and possible strains on the property. The main problem in Poland in the 1990s was a long period of awaiting registration in the land and mortgage register, which concerned mostly new real estate owners, or strains such as mortgages serving as security to raised loans. However, in the 21st century there are drastic changes taking place in this area. The ongoing computerisation of the system of land and mortgage registration resulted in shortening the awaiting time from 2 months in 2008 to approximately two weeks in 2012 (Ministerstwo Sprawiedliwości, 2013, p. 25).

According to the research conducted by the World Bank, the time required to enforce a debt in Poland took up to 3 years in the first decade of the 21st century, with an average recovery of dues at the level of 40%. Additionally, the creditor had to cover high costs of court and enforcement proceedings. The above data do not take into account mass execution of property resulting, for example, from a deep crisis on the real estate market,
which did not occur in Poland at that time. A lengthy and costly process of property execution should have contributed to a lower value of granted loans in relation to the market value of real estate serving as security [lower loan-to-value ratio]. However, contrary to this assumption, there occurred unusually dynamic development of housing loans in Poland in the first decade of the 21st century, with high LTV ratios. For example, in 2010 the maximum LTV ratio in banks fluctuated from 80 to 110% for loans in Polish zloty, and from 70 to 120% for loans in foreign currency [KNF, 2011 p. 17]. Consequently, the second decade of the 21st century has faced great development of companies dealing with debt recovery. Universal banks have been selling their non-performing liabilities in a wholesale manner, so as to avoid the court and bailiff proceedings. This area still requires much improvement concerning both further shortening of the period of property execution [which is an ongoing process] and providing the persons undergoing execution with social accommodation due to their inability to repay housing loans. In the author’s opinion, borrowers should be aware of the consequences of failure to pay their dues, whereas the state should ensure proper conditions for conducting evictions in a manner that is not derogatory or discreditable.

8. Conclusions
The shape of the housing SOP in contemporary Poland, i.e. after 1989, was determined by the process of mass privatisation of the housing stock and the accompanying process of decentralisation. These processes constituted an important condition for the development of financialisation of the housing sphere. They led to a change in the ownership structure of the housing stock, with a clear pro private ownership direction of transformations. Consequently, owner-occupation has become a dominant tenure form, with lesser importance of social housing and a marginal role of private rented housing. This domination of the segment of owner-occupier dwellings constitutes a key factor increasing the connection between housing and financial spheres.

A characteristic feature of the Polish housing SOP is a significant role of the ownership tenure form of private housing investment mechanism. In this mechanism investors realise their investments (most frequently single-family residential buildings) for
their own needs. Thus, they coordinate the entire investment process, beginning from the stage of planning and ending at the stage of construction and finishing. The popularity of this mechanism indicates that there is a strong connection of citizens to the ownership of the housing stock. As has been highlighted, these preferences will change with time, yet not radically. Young people, born after 1989, have different priorities than the ownership of the housing stock and an accompanying housing loan which strains the household budget for the next 20-30 years. Government programmes such as “Rodzina na swoim” [2007-2012] or “Mieszkania dla Młodych” [from 2014] supported the citizens’ desire to own housing stock. In a sense, these programs reflected the households’ preferences, similarly to the process of spatial planning. As a result, they constituted a crucial form of support for property developers housing investment mechanism, and – what is more – they solidified strong connections between housing and the financial system. Mass processes of ownership transformations in housing cooperatives and the state’s withdrawal from the support of cooperatives housing investment mechanism changed the role of the cooperative into real estate administrator. Consequently, housing cooperatives do not constitute an alternative either to dwellings for rent or to owner-occupied dwellings. At the same time the connection between the financial and real spheres is not so strong as regards this mechanism. The conception of social housing in the form of the Associations of Social Housing was supposed to support the state’s actions to satisfy the housing needs of local communities. In reality, the construction and lease of residential premises, i.e. the basic activities of the TBS, constituted less than 25% of all its activities. Furthermore, there still exists a problem connected with the treatment of the tenants who fail to fulfil the income criteria specified in the social housing stock. When it comes to the gmina’s housing investment mechanism, a key role is played by the holders of public resources. Special attention has been paid to the fact that large and unsatisfied demand for social accommodation, especially associated with the realisation of eviction orders, causes a key barrier to the development of the private segment of dwellings to be leased.

The financialisation of the housing sphere in Poland took place as a result of favourable macroeconomic conditions (stable prices, disparity in interests rates, favourable foreign exchange rate), using housing loans raised in Swiss francs, with growing
importance of property developers housing investment mechanism. This process could take place due to the fact that there was no alternative (in relation to commercial banking) finance mechanism which households could use to fund their housing investments, there were delayed regulations and actions introduced by the state as well as an ineffective information policy targeted at the citizens. Consequently, the availability of money and its low, current cost caused a relatively dynamic growth in dwelling prices, despite unfavourable long-term conditions for borrowers (foreign exchange risk, interest rate risk). Reversing the price trend on the housing market resulted in limitations in the availability of housing finance, a growth in the cost of such finance, and consequently a long-lasting limitation to the possibility of satisfying housing needs by a vast group of the society. According to the estimates of the National Bank of Poland, the estimated loan availability in Poland amounted in 2013 to approximately 40% of households.
Glossary

Dwelling - a premise consisting of one or more rooms including auxiliary rooms, built or rebuilt for living, separated constructionally (with fixed walls) within a building, with independent entrance from the staircase, common hall, entrance hall or directly from the street, courtyard or garden. Under auxiliary rooms one shall understand: a hallway, a hall, a bathroom, a toilet, a dressing room, a pantry, a storeroom and other rooms located within the premises of a dwelling, serving the occupants to fulfil their housing and economic needs.

Forms of construction used in Central Statistical Office [GUS] data:

1) private construction — realised by natural persons (regardless of whether they conduct economic activity), foundations, churches and religious associations, designated for the use of the investor and the investor’s family or for meeting the residential needs of the investor’s employees or for sale or rent (in order to earn a profit);

2) cooperative construction — realised by housing cooperatives, designated for the members of these cooperatives;

3) company construction — realised by workplaces of the public or private sector (excluding construction of natural persons conducting economic activity, included in private construction), designated for meeting the residential needs of the employees of these enterprises;

4) municipal construction — primarily with a social or intervention character, realised entirely with gmina funds for the residential needs of low income households;

5) public building society — realised by public building societies (operating on a non-profit basis), utilising credit from the state bank BGK;

6) construction designated for sale or rent — realised in order to earn a profit by various investors (e.g., development companies, gminas), excluding construction of natural persons conducting economic activity, included in private construction.
This form of construction also includes construction of public building societies, realised in order to earn a profit (from rent or the commercial sale of dwellings), designated in full for building rental housing (GUS).

**Gmina** - a self-governing community and its respective territory. The inhabitants of every gmina make up a self-governing community by virtue of law. Every gmina performs public activities for itself and on its own responsibility. The scope of gminas’ activities includes all public issues of local importance, unrestricted by statutes for other entities. Satisfying collective needs of a community is the gmina’s own task. Gminas have legal personality. The independence of a gmina is subject to judicial protection (Law of 8 March 1990 on gmina self-government, uniform text, Journal of Laws of 2013 item 594 with amendments).

**Legal title to occupied dwellings:**

1) **ownership right** - means the possession of a dwelling certified with a notarial deed by one member of a given family household or a few members under the principle of joint ownership (e.g. spouses are joint owners of a dwelling);

2) **cooperative ownership right to premises** - a limited, transferable property law: premises may be sold, donated, inherited, leased/lend, but also lost in the course of execution. A cooperative ownership right to premises means that a person is entitled to premises, but the building and the land under it belong to the housing cooperative. Thus, it is a “limited property law” which refers to residential premises and is not assigned from the real estate. A real estate register might be started for the cooperative ownership right to premises, which makes it possible to raise a mortgage;

3) **cooperative tenant right to premises** - an inalienable right to reside: it cannot be sold, donated, inherited or lost in the course of execution;

4) **lease of a dwelling** - a situation in which a family household leases a dwelling from its owner (i.e. a natural person, gmina, the state, housing cooperative, enterprise) or the main user – a person who has another legal title to the premises in question (the main tenant – a member of the cooperative, the main lessee in a municipal, state or enterprise dwelling) on the basis of a written or verbal lease (or lending) agreement;
5) sublease of a dwelling - means that a family household subleases a part of a
dwelling (usually a room) from its owner or main user, on the basis of a written or
verbal lease (or lending) agreement. The family household of the lessees or
sublessees may: - pay for lease/sublease according to market prices, i.e. in
accordance with current market charges for a similar dwelling in the same
neighbourhood, - pay for lease/sublease less than market prices, i.e. lower than
the prices for a similar dwelling in the same neighbourhood, e.g. a dwelling
leased from one’s own family, friends, a company dwelling, - not pay for
lease/sublease: municipal, welfare, company dwellings;
6) free inhabitancy - i.e. a family household does not pay for lease/sublease: due to
kinship with the owner or main user of a dwelling, due to annuity, taking care of
ill children or the home, in return for tutoring, without a legal title as the so-
called ”squatters”. [GUS, EU-SILC, 2011].

Protected accommodation - a means of social assistance, the aim of which is to prepare
the persons residing there, in the care of specialists, to lead an independent life, or a
means of replacing accommodation in a 24-hour nursing institution. Protected
accommodation ensures the conditions for independent functioning and integration with
the local community. A stay in protected accommodation may be granted in particular to:
persons with mental disorders, persons who are about to leave their foster families,
nursing and educational institutions, juvenile correction facilities, as well as foreigners who
have been granted a refugee status or additional protection.

Substandard dwellings include: a) dwellings located in buildings being in poor technical
condition, i.e. buildings erected before 1970, dwellings in one-chamber buildings, dwellings
built before 1945, without the sewage system, or before 1971, without the water supply
system, b) overpopulated dwellings, i.e. 3 or more persons per room, unless these
dwellings have been categorised to other groups of substandard dwellings, c) dwellings
poorly equipped with basic installations, i.e. dwellings without toilets, yet with a water
supply system and dwellings without toilets or a water supply system, located in buildings
not categorised in the first group.
Type of the entity that is the owner of a dwelling:

1) gminas – dwellings (municipal) owned by gminas or poviat (local self-government communities), owned by gminas but located in buildings constituting a shared real property e.g. dwellings which serve meeting the needs of all inhabitants of a gmina, as well as dwellings handed over to gminas, but remaining at the disposal of public use units, such as: health care institutions, social welfare centres, educational system entities, culture institutions, serving mainly the housing needs to employees of these entities;

2) housing co-operatives – privately-owned dwellings (occupied by virtue of the housing co-operative ownership dwelling entitlement) or tenancy dwellings (occupied by virtue of tenancy), located in buildings constituting the property or the joint property of housing cooperatives, excluding dwellings for which, on the grounds of the Act of December 15, 2000 [Dz. U. 2003, No 119, item 1116] a separate ownership title was established, for the benefit of one or more natural persons;

3) the State Treasury – dwellings staying as part of resources of Agricultural Property Agency (earlier Agricultural Property Agency of the State Treasury), the Military Housing Agency, under management of entities subordinate to ministers: National Defence Minister, Minister of Interior and Administration, Minister of Justice, under management of state authorities, of state administration, of state control, etc.;

4) companies – dwellings which are the property of public enterprises, including State Forests and state organizational entities e.g. public scientific and research institutes, public higher education institutes [excluding catholic universities] art institutes, Agriculture Circle Companies: municipal enterprises, excluding housing enterprises-; private enterprises and other private organizational entities;

5) public building societies (TBS) - dwellings in buildings being the property of legal entities having in their names "public building society" or the Polish abbreviation "TBS", irrespective of participation in costs of constructing the building by
another entity (a gmina, a housing co-operative, a company) in return for receiving the dwellings (on rental terms) for third parties indicated by such an entity;

6) housing communities – this term refers to a multi-dwelling building (or several buildings), in which part of or all units represent separate ownerships of natural persons, confirmed by a relevant entry in the land and mortgage register. A given housing community comprises all owners of the premises (both residential and commercial);

7) other entities – dwellings constituting the property of institutions which erect buildings for profit – designated for sale (but not sold to any natural persons yet), or for rental; dwellings owned by associations, foundations, political parties, trade unions, professional and economic self-governments; the Roman-Catholic Church and other churches and religious associations, catholic universities and church institutes, etc. (GUS).
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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment; the lessons to be drawn from the crisis about the nature and impacts of financialisation; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?
THE PARTNERS IN THE CONSORTIUM ARE:

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