RE:PRS 2023

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REVIEW, TRENDS AND OUTLOOK FOR PRS MARKET IN POLAND

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Fot. Vonder

Dear Readers,

The predictions of real estate experts regarding the growing potential of the living sector in Europe have been confirmed. Alongside offices, logistics and retail, this sector is now cited by investors as the most attractive. This is further confirmed by the results of a Knight Frank survey of 44 institutional investors active in the living sector in Europe, managing EUR 70 billion worth of residential assets across the continent. Analysis of the responses shows that respondents collectively plan to invest an additional €151 billion in the living sector in Europe by 2027, a projected increase of 115% on the €70 billion invested to date.

Poland, it should be noted, will be an increasing beneficiary of this trend. Investors recognise both the undisputed potential of the PRS sector and the country's significant housing shortage, which is estimated at around 800,000 units. The current economic and political reality, and in particular the war in Ukraine, forms part of a wider discussion about the market situation in Poland, although it poses no obstacle for investors. The strong demand for rental housing in the largest cities is unprecedented, and the dynamic growth in rents in Poland is allowing increasingly high returns to be realised.

Despite solid fundamentals, institutional investors from Germany and Austria, among others, are proceeding with caution due to rising financing costs, and are concentrating on their home markets. In their place, private equity investors from Israel, Scandinavia and Asia, along with institutional investors from the United States, France and the United Kingdom, are showing increasing interest in the PRS sector in Poland. In their eyes, Poland's advantages are the absorbent rental market and rising rents.

The latest edition of the report on the PRS market in Poland prepared by Knight Frank and Dentons analyses the macroeconomic situation, the real estate market, and the legal and tax environment. In addition, it sets out the results of a survey conducted among investors and developers active in the PRS sector and banks financing these investments. As a whole, it paints a clear picture and reveals the potential of this market in Poland – a market whose attractiveness will only continue to grow.

KRZYSZTOF CIPIUR
Managing Partner, Head of Capital Markets,
Knight Frank

Fot. Heimstaden

Dentons

Dear Readers,

A lot has changed in Poland and globally since the first edition of the Private Rented Sector (PRS) market report we published together with Knight Frank in late 2021.

PRS as an asset class has attracted attention of the global and European institutional players, with a number of transactions executed in 2021 and first half of 2022. Thereafter, the overall pace of investments slowed down in the wake of the war in Ukraine and rising costs of financing. Throughout 2022 and early 2023, high inflation, rising costs of living and global security issues determined the investment sentiment.

Although discouraging for some, these elements may also create opportunities for other investors seeking to enter the market or expand their positions. The resulting decreased availability of mortgage loans and re-financing needs may cause some hitherto reluctant developers to seriously consider large-volume transactions on their residential projects.

The residential leasing market has also experienced rapid growth in 2022 due to the influx of approx. 2 million refugees from Ukraine. Many of these refugees may be expected to stay and their arrival has already changed the demographics of large Polish cities. This trend also had a positive impact on building residential apartment leasing platforms and increased expected revenue due to higher than anticipated rents.

As regards the law, legislation relaxing zoning conditions for residential developments is already in place and further planned facilitations are afoot for converting obsolete office and retail projects into apartments. On the other hand, investment acquisitions of apartments have also drawn some political attention with plans for legislative intervention into the PRS market, including surcharges on PRS transactions as mooted by various government officials.

As lawyers we look forward to participating in the re-start of the transaction market and to further legislation stimulating the construction sector unlocking the potential in residential development. We hereby present to you our revised and updated report on the condition of the housing market for rent, prepared in cooperation with partners from Knight Frank.

PIOTR STANISZEWSKI
Partner, Real Estate
Dentons

1 PRIVATE RENTED SECTOR IN POLAND

Market overview

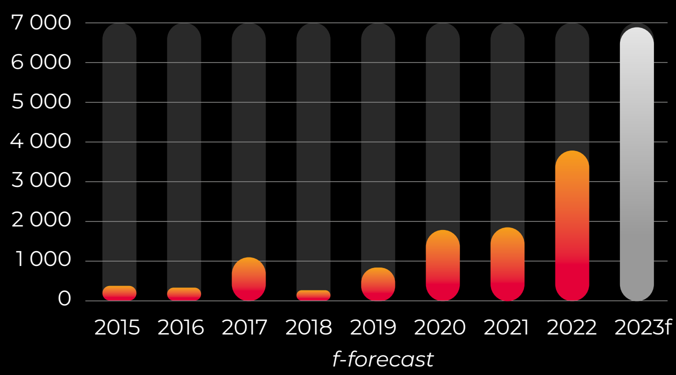
The institutional Private Rented Sector (PRS) in Poland has seen remarkable growth in recent times, as evidenced by high growth in stock of rental apartments in the last year. This resulted in over 10,300 apartments being available for rent from institutional investors by the end of 2022, with nearly 40% being completed in the last 12 months. Nevertheless, it should be noted that PRS facilities accounted for only 1% of the total rental housing stock in Poland's main cities, with the privately owned rental housing stock being estimated at over 1.2 million units. The evolving real estate market and current socio-economic climate are presenting new opportunities for further expansion of the living sector in Poland.

The PRS boomed internationally in the wake of the Global Financial Crisis in 2008 that caused a restructure of housing systems. The intervening years have seen mature markets emerge, such as the US, Germany and Japan, while other markets have witnessed significant growth in the sector, such as the UK, Spain and Ireland. Poland has entered a stage of primary development, following the lead of Western countries, and is expected to expand dynamically in the coming years.

2022 was a vigorous year in terms of the PRS supply delivered to the market, with nearly 3,800 new apartments completed over the course of the 12 months.

In line with development being in its initial stages, the PRS market has been expanding only in major cities thus far. However, this growth includes several examples of PRS projects in satellite locations to the major agglomerations, such as Piaseczno and Bytom.

Graph: Annual supply of PRS apartments (2015-2023f)

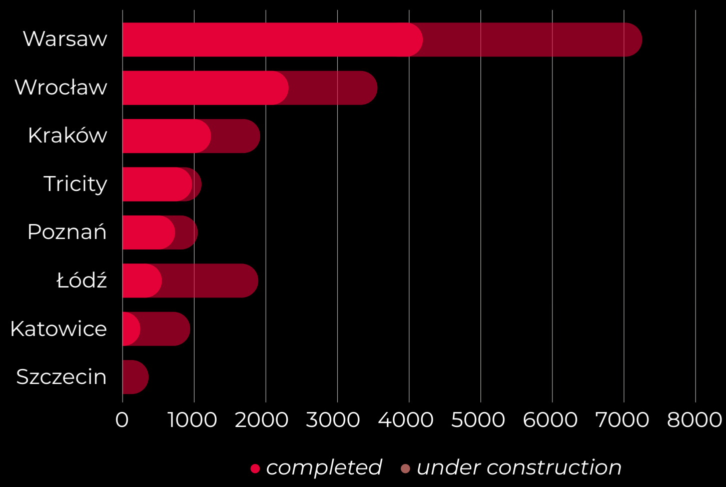


Source: Knight Frank

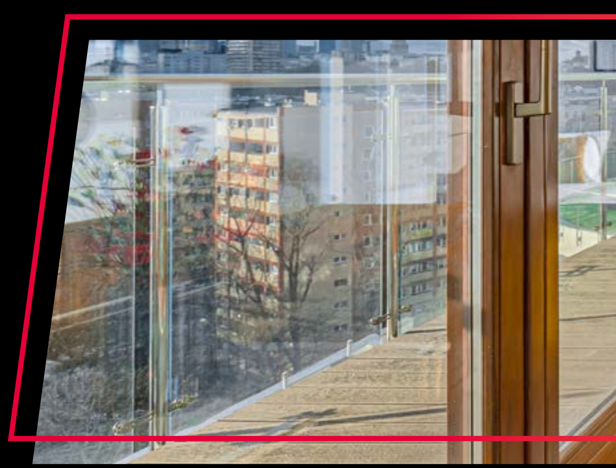
Warsaw is the largest PRS submarket in Poland, with approximately 4,180 apartments for rent and a 40% share of the PRS stock. Wrocław is the second-largest submarket, with over 2,300 apartments, while Kraków, where the PRS supply doubled in the previous year, had over 1,200 apartments for rent at the end of 2022. Other locations operate on a smaller scale, with fewer than 1,000 units each.

At the end of 2022, approximately 8,300 units in almost 40 projects were identified as under construction in Poland. According to developer schedules, nearly 6,900 apartments are planned to be delivered by the end of 2023 with the largest new supply expected in Warsaw, Łódź and Wrocław. It is foreseen that the coming years will bring further rigorous development of the institutional rental market. Land banks which have been already secured by investors, allow for construction of some 35,000 apartments.

Graph: PRS stock and supply under construction by location (Q4 2022)



Source: Knight Frank

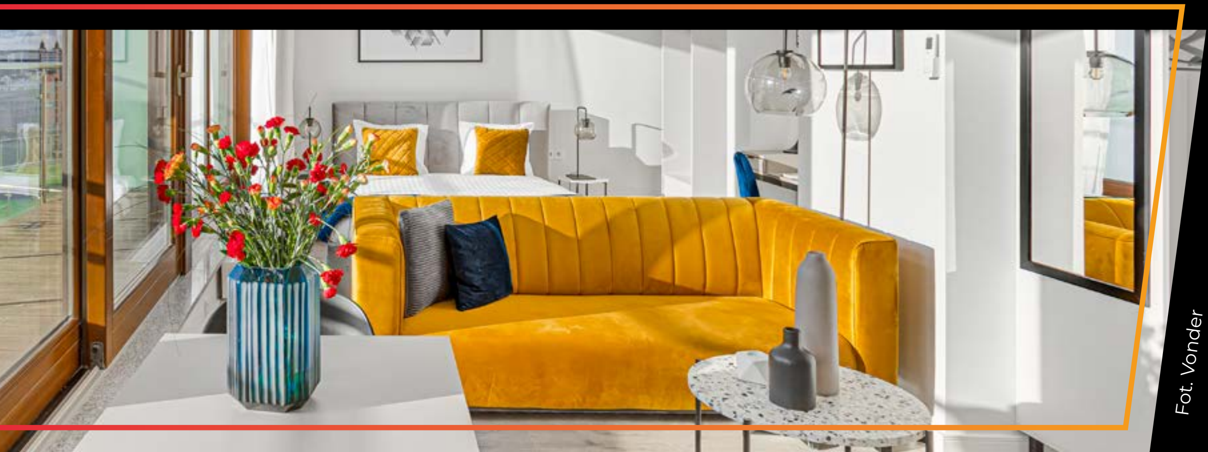


Warsaw - location of PRS projects within the city

CASE STUDY

PRS schemes in markets at the initial stage of development are usually located in the best spots in a city; locations where apartment purchase prices are at their most expensive. Hence, apartment rental offers tenants the advantage of living in better locations.

Our analysis of PRS project locations within cities centred on the example of Warsaw, as the largest PRS market in Poland. Existing schemes are dotted around the city, although most are on the left (western) bank of the river. More than 25% of the apartments are located in the strict centre. A further 20% are to be found in the Mokotów district, a neighbourhood close to the largest non-central business hub, where 1.4m sq m of office space plays host to in excess of 100,000 employees. Among the supply under construction, the largest number of apartments will be delivered shortly in the Praga (more than 900) and Mokotów districts (860).



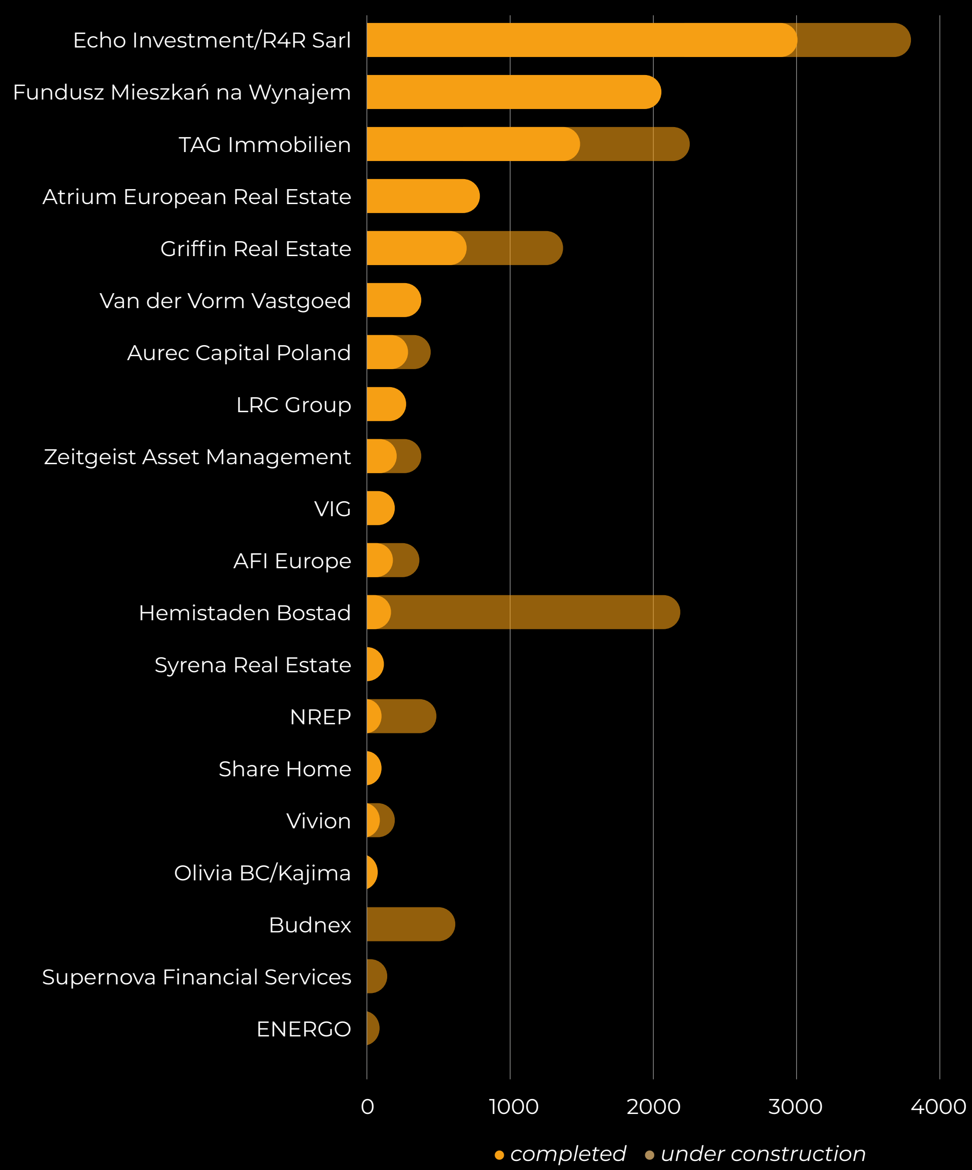
Fot. Vonder

Investors

The Polish PRS market currently plays host to both Polish and foreign operators with extensive international experience in the sector. At the end of 2022, Echo Investment had the highest share of the existing stock (29%), with almost 3,000 apartments in 11 projects available on its Resi4Rent platform. Other important investors were Fundusz Mieszkań na Wynajem (with more than 2,000 existing units in 19 projects) and TAG Immobilien (with 1,500 apartments in 9 projects on its Vantage Rent platform). Moreover, TAG Immobilien acquired 100% of the shares in the Robyg Group, securing land for approximately 16,500 apartments across 14 residential projects. It should be noted that such a positive outlook for the PRS market has attracted new players such as Syrena, Van der Vorm and AFI, all debuting in the sector in 2022.

Looking at the development pipeline, Heimstaden currently has the highest number of units under construction, with an estimated 2,000+ apartments to be completed within 2 years. Another active player is Cavatina Poland who considers stong expansion in the sector, with 4,000 units in the pipeline. The PRS sector has abundant opportunities for further growth in Poland, with significant amounts of land having already been secured for new projects.

Graph: Investors PRS portfolio in Poland (Q4 2022)

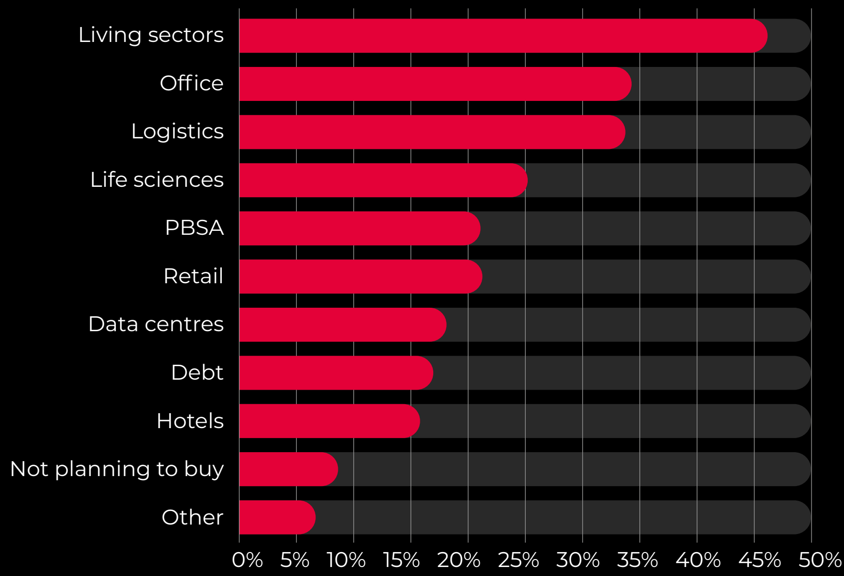


Source: Knight Frank

Fot. Resi4Rent

Graph: Which sectors are you targeting over the next 18 months?

Active Capital webinar 2022/23 live poll results

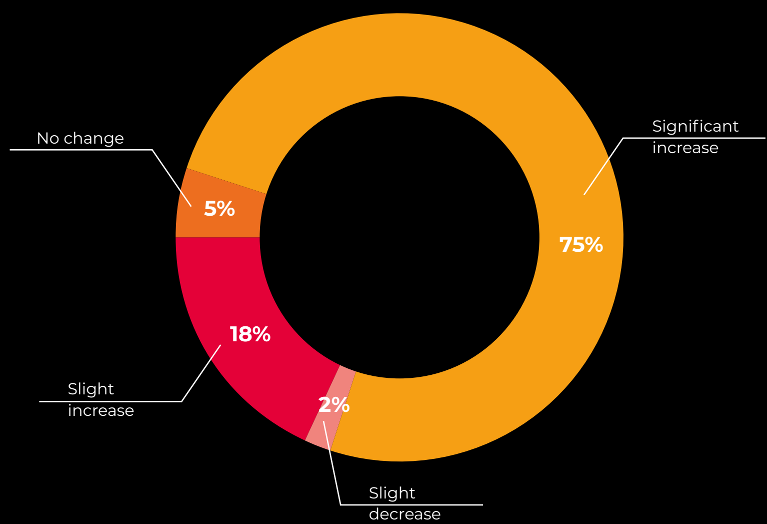


Source: Knight Frank

Moreover, a number of investors currently engaged in the commercial real estate market are seeking opportunities to diversify their portfolio in the PRS sector direction. Knight Frank's global survey of more than 600 investors - part of Knight Frank's October 2022 Active Capital research - found that 46% of investors plan to target the living sector over the next 18 months. Their preferences paint a rosy picture for the future of the PRS market in Poland.

Graph: Taking a five year view, how do you expect your total investment into Living sectors to change by 2027?

% of respondents



Source: Knight Frank

Demand for and availability of apartments

Market conditions for the purchase of apartments in Poland have deteriorated - the main contributing factors being the unstable economic situation, a sharp price growth in the residential sector, and a substantial rise in mortgage costs. Moreover, average creditworthiness has dropped, due to a combination of new regulations reducing customer purchasing capacity and high interest rates, all adversely affecting borrowers' chances of obtaining a mortgage. This combination of factors has positively impacted demand in the Private Rented Sector (PRS), propelling forward its growth in recent months.

In 2022, the rental housing market in Poland witnessed an unprecedented decline in the availability of apartments for rent. It is estimated that in the privately owned rental housing market, the number of apartment rental offers in the largest cities was half the level of previous years. Simultaneously, the availability of apartments was far below the needs of the local market. At the end of 2022, the availability of PRS apartments in Poland was limited, with less than 320 units available for rent. The highest availability was in Wrocław (more than 100 apartments) and Kraków (80 units). Strong demand for PRS apartments is confirmed by extremely low vacancy rates in the sector, estimated at less than 3% despite 2022's substantial new supply. The sector is also characterised by its fast pace of commercialisation - in many cases the majority of apartments are already rented before the project is ready to open its doors.

Additionally, demographic circumstances dictated by the war in Ukraine and its consequences have exerted a notable influence on demand in the PRS market. The influx of Ukrainian refugees following the outbreak of hostilities in their country was one of the key factors limiting the availability of rental apartments in Poland. According to the Union of Polish Metropolises, more than 3.85 million refugees came to Poland following the outbreak of the war in Ukraine. Under these circumstances, demand for apartments has risen accordingly. Following the outbreak of the war, an increasing willingness among Ukrainians to remain in Poland has been observed. Despite this, the vast majority of refugees are not ready for long-term liabilities; as a result they opt for renting over buying apartments. It remains unclear how the current wave of migration will affect the PRS market in the longer term, but the trend is for demand patterns to continue, although it will depend, among other things, on the labour market options available to refugees.

Fot. Heimstaden

Rental rates

Strong demand for apartment rentals has resulted in an unprecedented growth in PRS sector rents in recent months. As a result of the significant decline in the availability of apartments for rent in Poland, coupled with the higher costs of financing new developments and growing construction costs, rents in the PRS sector increased by some 30-40% in Warsaw and some 10-30% in regional cities compared to rents in H1 2022.

At the present time, rents are paid by the tenants in PLN, although there is an ongoing discussion about changing the currency to EUR. In the case of commercial real estate, it is standard that rents are charged in EUR, whereas the norm for PRS rents in Poland is for them to be paid in PLN. EUR use reduces doubt when estimating revenues for a foreign investor, for whom EUR is the most transparent currency. Additionally, use of PLN increases the costs of financing an investment compared to financing in EUR. It turns out, in fact, that some PRS investors are already testing the waters when it comes to collecting rents in EUR.

RENTAL RATES AND CONDITIONS

STANDARD: basic and premium

DURATION OF LEASE: **11-12 months**

ADDITIONAL FEES: **+15-25%** of monthly rent for short term contracts (below 6 months)
embedded extension options

UPFRONT CHARGES FOR UTILITIES: based on usage

RENTAL RATES (/SQ M/MONTH)

1-ROOM APARTMENTS	2-ROOM APARTMENTS	3-ROOM APARTMENTS	DISCOUNTS
Warsaw: 121-187 PLN	Warsaw: 95-105 PLN	Warsaw: 81-100 PLN	Warsaw: 2-3% for contract lenght
Regional cities: 77-128 PLN	Regional cities: 65-76 PLN	Regional cities: 68-70 PLN	Regional cities: 2-5% for contract lenght

OTHER PAYMENTS

SERVICE CHARGE (/SQ M/MONTH)	PARKING SPACE (/SPACE/MONTH)	STORAGE ROOM (/UNIT/MONTH)
7-12 PLN	Warsaw: 200-350 PLN	Warsaw: 200-300 PLN
	Regional cities: 100-300 PLN	Regional cities: 150-250 PLN

STANDARD

COMMON AREAS:

- reception desk 24H
- security
- lobby
- parking (additional fee)
- bicycle parking
- laundry service
- storage room

and additional amenities

- lounge area
- gym
- SPA
- restaurants
- co-living space
- e-commerce point (e.g. parcel machine)
- TV room
- terrace
- common dining room

EQUIPMENT:

- appointed bathroom
- appointed kitchen
- household appliances
- furniture (sofa, bed, desk)

COMMODITIES:

- application for residents
- remote fault reporting
- media fees
- internet
- security 24H
- monitoring

2 OUTLOOK AND MARKET TRENDS

LIMITED PURCHASING POWER

High prices in the residential sector and persistent high interest rates are limiting purchasing power in the housing market, resulting in the demand for housing being met primarily through rental apartments.

INCREASING INSTITUTIONAL INVESTMENT

Many investors are now diversifying their asset portfolios by investing in the PRS sector, and land banks have been secured to construct some 35,000 new apartments. Additionally, decreasing residential market sales are leading to a further increase in the PRS supply, as residential developers are becoming more open to negotiating the purchase of entire projects.

CHANGES ON THE DEMAND SIDE

There is a generational shift taking place in Poland that may well bring opportunities related to a changing balance between apartment rental and ownership. The demand for rental properties is also driven by the availability of suitable locations for young working people, which may lead to an advantage in renting over buying.

A combination of growing demand for apartments for rent, high occupancy rates, increasing developer activity and strong investor appetite, suggest a bright future for the PRS market in Poland.

NEW SOURCE OF DEMAND

The influx of refugees from Ukraine, some of whom will stay in Poland longer term, translates into increased demand for apartments for rent. It remains difficult to predict how the current wave of migration will affect the PRS market in the long term, but it seems likely that the level of demand will continue, although it will depend, among other things, on the labour market prospects for refugees.

PREFERRED LOCATION

Location is key in the PRS sector and the most favoured schemes are those near underground stations and on tram and train routes. Rail infrastructure in close proximity makes a significant difference.

RAPID GROWTH

The PRS sector in Poland has seen significant growth in recent years, with the existing stock of rental properties increasing by around 40% within the last year. This trend is expected to continue in the future, as the evolving real estate market and current socio-economic climate present new opportunities for expansion.

Fot. Heimstaden

3 PRS SECTOR - BUSINESS ENVIRONMENT & RATIONALE FOR FURTHER DEVELOPMENT

Fot. Resi4Rent

The PRS sector has strong fundamentals for further growth in Poland and is an opportunity to restore balance to an increasingly challenged Polish residential sector. In 2022, the residential market in Poland entered a period of accelerated transformation due to the sharp increase in interest rates, the high inflation rate levels, and the introduction of the revised Recommendation S by the Financial Supervision Authority (KNF) at the beginning of 2022. These factors have translated directly into a more limited number of mortgage-backed customers being able to purchase their own apartment. However, at the beginning of February 2023, the KNF decided to lower the criteria used by banks to evaluate creditworthiness (return of the minimum interest rate at 2.5%). It can be expected that easier access to mortgages could even lead to a slight recovery of demand on apartments.

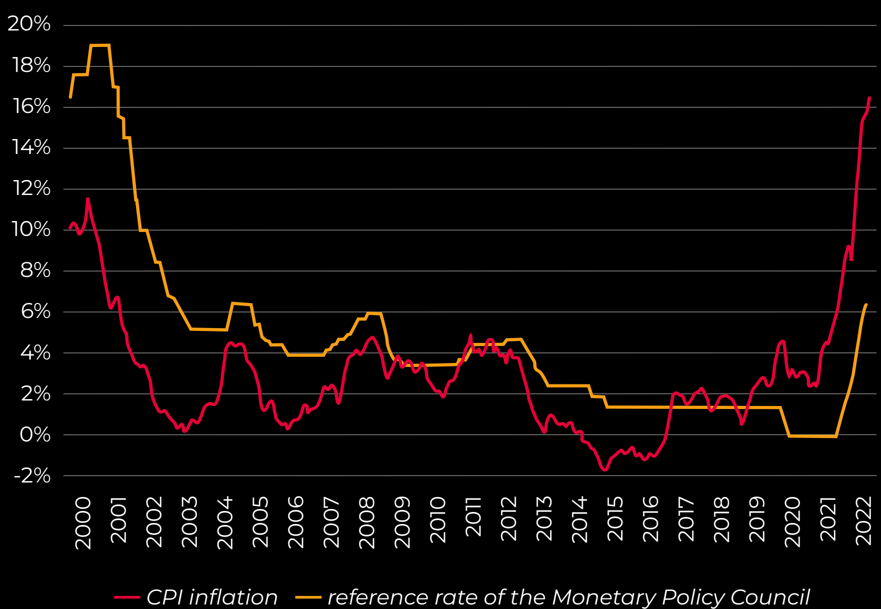
On the one hand, with a significant number of potential buyers being cut off from mortgage supply in 2022, the outlook for the rental market appears to be stronger than ever. Furthermore, a relatively low housing needs satisfaction index and a substantial growth in residential sector prices create opportunities for further PRS market development. On the other hand, however, looking at things from an investor perspective, there is a degree of uncertainty related to the geopolitical situation and the war in Ukraine, coupled with the rising inflation rate, construction costs and the costs of financing new developments.

Recommendation S is a set of guidelines that aims to reduce the risk of granting mortgages, it includes: a minimum 20% deposit, an LTV ratio not exceeding 80%, mortgage given in the borrower's income currency, considers higher household costs, and has a maximum repayment period of 25 years.

Inflation & interest rates

The inflation rate stopped rising for the first time in the last 16 months, standing at 16.6% y-o-y in December 2022. The annual inflation rate for 2022 was estimated at 14.4%, at its highest level since the 1990s. Nevertheless, the forecast of the National Bank of Poland foresees an inflation rate of 13.1% for 2023. To fight growing inflation, interest rates have been raised, translating into decidedly less attractive mortgage terms for customers. Over the last year, the reference interest rate was raised 11 times, rising from 0.1% to 6.75%. Due to rising interest rates, the WIBOR index used to calculate mortgages in PLN has been growing, resulting in increases in monthly liabilities of several hundred PLN in recent months for mortgage holders. Rising interest rates and higher costs of mortgages create opportunities for the rental market. Nevertheless, they also lead to higher financing costs for new developments on the developer side, and an increase in previously incurred liabilities.

Graph: CPI inflation and the reference rate of the Monetary Policy Council



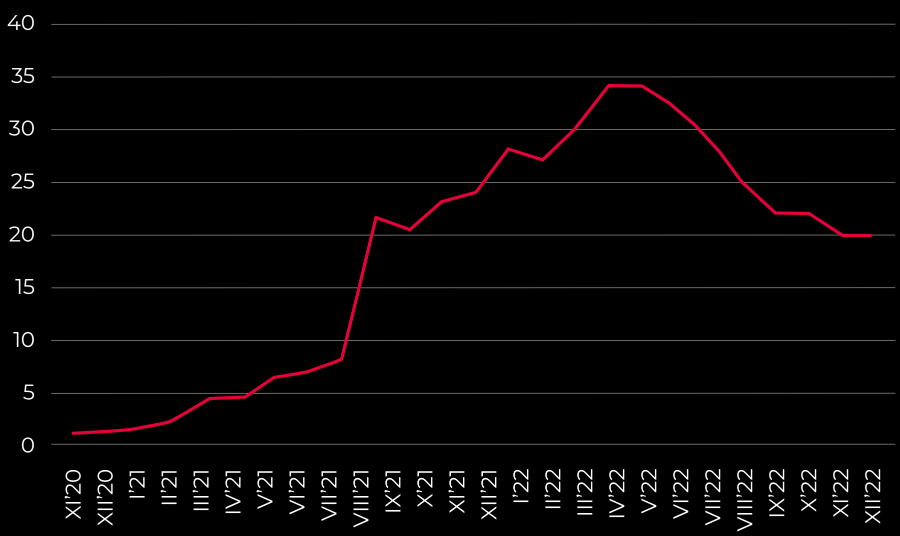
Source: Statistics Poland, National Bank of Poland

Construction costs

The high inflation rate makes it difficult to estimate project construction costs and financing over several years, and thus to maintain the best possible return on investment. As a result, indexation clauses are increasingly being considered for investment contracts, with developers seeking to protect themselves against rising construction costs. According to the PSB Handel S.A. Group data, construction materials costs increased on average by 25% in 2022.

The increase in the prices of some construction materials has slowed somewhat in recent months, although this has not filtered through into general contractor costs. Construction companies continue to face problems related to the exodus of workers to Ukraine and will also be affected by an increase in the national minimum wage. Construction costs are also kept at high levels by the price of fuel and energy – costs which are relatively resistant to falling demand.

Graph: Average dynamics of construction materials costs (y-o-y) (%)



Source: PSB Handel S.A. Group

Fot. Resi4Rent

Apartment rental or mortgage?

The relationship between the average monthly rent and the mortgage rate, which is often used by people making decisions about purchasing their own home, is important. A comparison of these values made by Expander and Rentier.ie shows a significant difference in the amounts, with decidedly more strain being placed on household budgets by mortgages.

	WARSAW	WROCŁAW	KRAKÓW	GDAŃSK	POZNAŃ	ŁÓDŹ	KATOWICE
Average monthly rent rate for 50 sq m - sized apartment (excluding metered and administrative fees) (PLN)	3 700	3 250	3 000	3 050	2 550	2 300	2 300
Average apartment price of a 50 sq m apartment (PLN)	644 750	510 400	554 700	564 286	448 350	367 797	345 350
Monthly loan repayment for a standard offer with a 10% own contribution for 25 years (PLN)	4 657	3 687	4 006	4 076	3 238	2 642	2 494
Difference (PLN)	**957**	**437**	**1 006**	**1 026**	**688**	**342**	**194**

Source: Expander & Rentier.io reports, November 2022

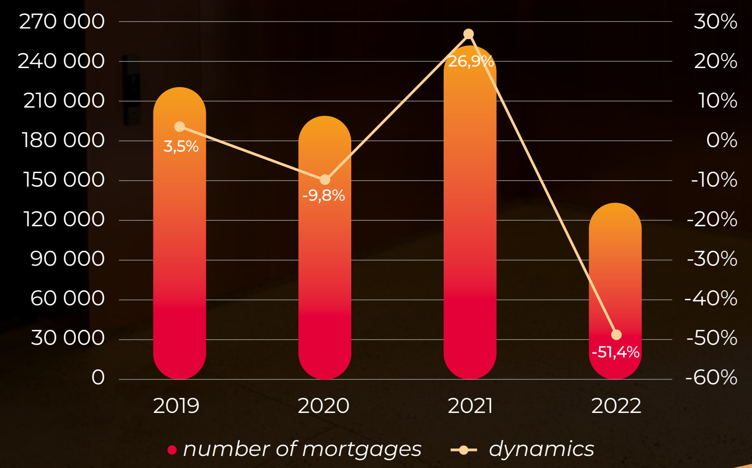
Prices in the residential sector

Dynamic increases in construction costs and land prices have been driving housing prices upwards. According to the latest National Bank of Poland report, further increases in nominal residential prices were observed from the beginning of 2022, both in the primary and secondary markets. In Q3 2022 alone there was a 15.8% y-o-y increase in nominal prices for apartments in Warsaw, with an 18.5% y-o-y increase in the six major regional cities (Gdańsk, Gdynia, Kraków, Łódź, Poznań and Wrocław). In Q3 2022, the average primary market transaction price in Warsaw was estimated at PLN 12,742/sq m, while in the six regional cities the figure was PLN 10,511/sq m. This significant change is not entirely due to an increase in housing prices, but more a change in the market structure of the sold apartments - a larger share of transactions in preferred locations than in the outskirts of cities.

Limited purchasing capacity

An additional factor limiting customer purchasing capacity was the introduction of the new Recommendation S by the Financial Supervision Authority, which implies higher household costs. The introduction of Recommendation S thus resulted in a decrease in creditworthiness by several dozen percent. According to the latest data published by the Credit Information Office (BIK), the value of mortgages approved in Poland in 2022 fell by 49.1%. Similarly, in terms of volume, there was a decrease of 51.4% (133,300 loan agreements were signed).

Graph: Mortgage sales 2019-2022 (thousands of contracts) and dynamics (y/y)



Source: Credit Information Office (BIK)

Fot. Resi4Rent

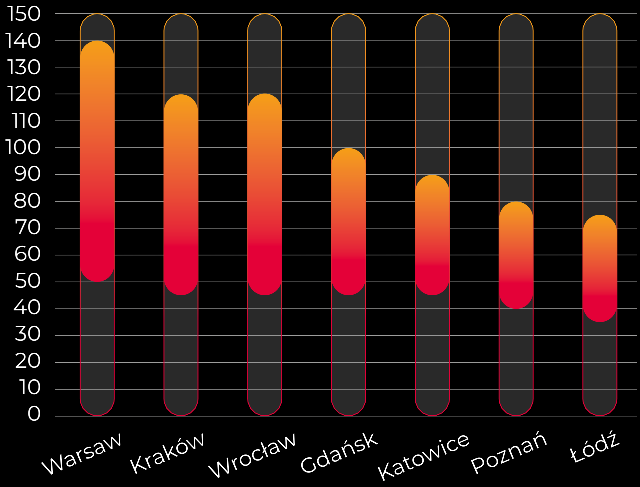
Land availability

Until now, the availability of residential land has been very limited due to strong demand in the residential sector and high apartment sales to individual buyers. As a result, some investors have considered acquiring commercial plots and converting former office buildings into PRS facilities. However, with a marked slowdown in demand for housing, land with a residential function is now more available. Investor attention is therefore shifting towards projects on dedicated residential plots. The main reasons for this preference are the lower VAT and property tax rates associated with residential buildings, as well as the ease of selling apartments to individual buyers in the event of failure.

Rents in the residential sector

2022 saw an unprecedented increase in rents in the residential market in Poland, which was interrelated with the increased cost of mortgages and the effects of the Recommendation S amendment. In addition, the outbreak of the war in Ukraine and the huge refugee influx into Poland caused a sharp decline in the supply of rental apartments throughout Poland, with an attendant significant increase in rental rates. The latest NBP report shows that average rents in Q3 2022 increased by 25.4% y-o-y in Warsaw, and by 26.4% in the six major regional cities. This brought average rents to PLN 66.6/sq m/month in Warsaw and PLN 59/sq m/month in the six regional cities. It should, however, be noted that in Poland, as many as 88% of existing apartments were built before 2012. As a result, the average rents do not accurately reflect the overall market. When renting new apartments, it is to be expected that rents will be significantly above the average, potentially reaching as much as PLN 140/sq m in Warsaw and PLN 120/sq m in regional cities like Kraków and Wrocław. In the coming year, further increases in rents in the residential market is expected, offering even more opportunities for the development of the PRS sector.

Graph: Asking monthly rental rents in medium-sized apartments in selected Polish cities (PLN/sq m)



Source: Knight Frank on a basis of available offers in the apartment search engine, January 2023 (apartments of size: 40-80 sq m, completed after 2010)

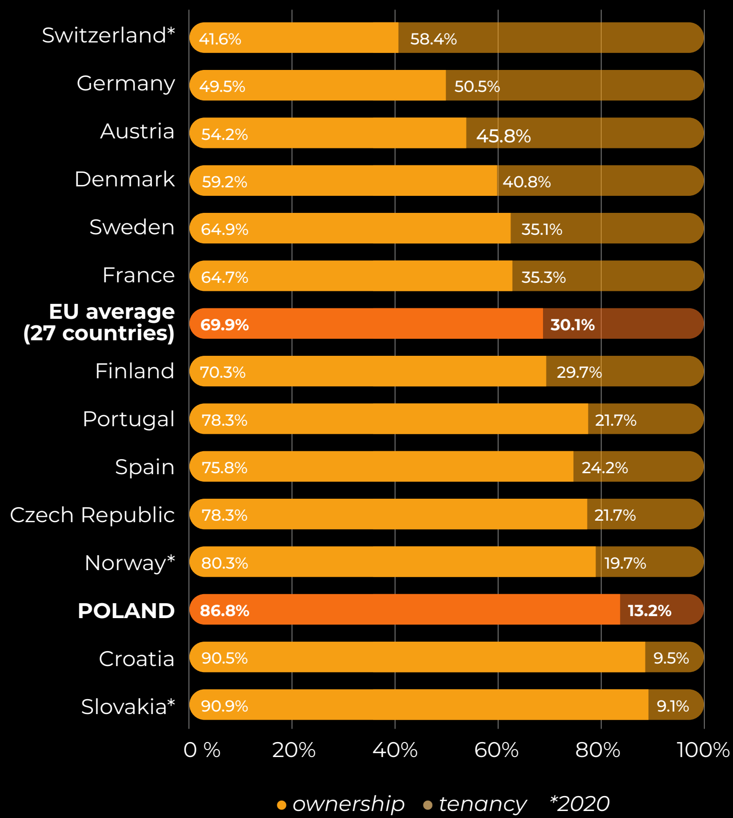
Foreign exchange risk

With almost all residential unit rents in Poland being paid in PLN, one of the challenges facing the PRS sector is foreign exchange risk. This suggests risks of lower revenue possibilities for foreign investors and increases the cost of investment financing. The answer may lie in rental payments in EUR by PRS tenants, as the EUR as a settlement currency is used successfully in commercial space leases (office, warehouse and retail). Given the current state of the law, it seems possible to introduce rent payments in EUR into PRS facilities. Neither the Law on the Protection of Tenants' Rights nor other legislation prohibits the payment of rent in foreign currency by tenants. From the perspective of PRS, this seems particularly interesting from the point of view of gaining access to cheaper financing in EUR and significantly reducing investor risk costs.

Housing needs

Poland is one of the European countries with the lowest rate of housing needs satisfaction. According to Eurostat data, Poles live in overcrowded apartments (36.9% of the population in Poland vs. 18% for the EU). The ratio estimated for Poland was 1.2 rooms per capita, one of the lowest results in the EU, where the average was estimated at 1.6 rooms per capita. Given the current limited opportunities to purchase a larger apartment, more people may well be willing to turn their attention to the rental sector, at least temporarily, until conditions allow a mortgage to be taken out on a larger flat. According to the Eurostat data, 86.8% of Poland's population live in owned apartments, while the EU average is 69.9%. With younger generations however appreciating mobility and independence, preferring rentals over long-term liabilities, the generational change is just beginning to offer opportunities for the PRS sector.

Graph: Structure of the housing market in selected European countries (2021)



Source: Eurostat

Fot. Resi4Rent

4 INVESTMENT IN THE LIVING SECTOR

The Living sector* achieved the second largest share of total European investment volumes in 2022, behind only offices.

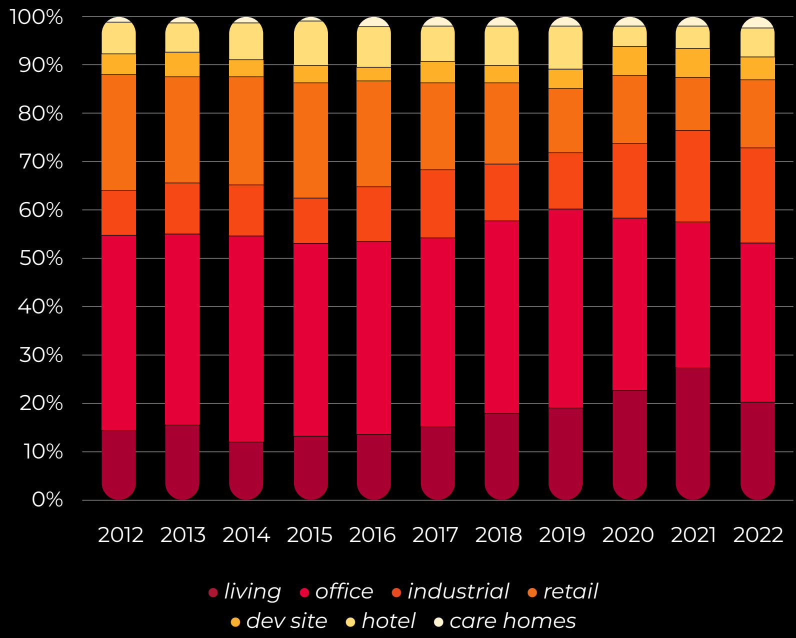
In total, our data suggests that the Living sector accounted for 20% of total European CRE investment in 2022. The Living sector has increased its share of total investment for seven consecutive years.

As investors and developers strive to develop answers to construction cost inflation, open book construction contracts, hedging costs and increase of swap rates, the student, BTR and senior living sectors will all remain attractive options for global investors. This is especially so as we begin to see the curve flatten and fixed price contracts return. The strength of the US dollar, in particular, could lead to an uptick in US capital looking at European markets in 2023.

* Living sector consists of the student housing, BTR and senior housing.

Graph: Living sector capture a greater share of European CRE investment

Investment as a proportion of total



Source: Knight Frank/RCA

EUROPEAN RESIDENTIAL INVESTMENT YIELD MATRIX (Q4 2022)

	GERMANY	FRANCE	SPAIN	NETHER-LANDS	AUSTRIA	IRELAND	POLAND	UK
Total population	84.1m	67.8m	46.7m	17.2m	9.1m	5.1m	37.7m	68.7m
Urban population	64.5m	54.1m	37.9m	16.2m	5.2m	3.1m	22.8m	56.6m
Rent restrictions	Rent control or rental brake	Rent controls in Paris and other cities in the provinces	Rent controls being discussed	More rent controls in preparation	Regulated and un-regulated	Rent controls in RPZs	-	Some affordability requirement
Prime net initial yield	2.55%	3.00%	3.75%	3.75%	3.10%	4.10%-4.20%	5.00%-5.25%	3.25+%
Trending	↑	↑	↑	↑	↑	↑	↑	↑
Prime gross yield	3.00%	3.00%	4.20%	4.00%	3.40%	5.00%	5.50%-5.75%	4.00%-4.25+%
Prime cap val (€/sq m)	7,000	6,840	6,000	11,000	7,000	8,000	3,700	11,000
Typical rent (€/sq m/month)	22.00	25.00	16.00	24.00	14.50	32.50	21.00	42.00

The capitalization rates for PRS investments in the most popular cities of Western Europe stood at an average of 3.25% -3.75% in Q4 2022. In Warsaw, it is estimated that prime capitalization rates were around 5.00% - 5.25%.

Despite numerous challenges, investors remain committed to the Living sector. In 2022, institutional investment in the Polish living sector totalled an estimated € 432.5 million.

THE BIGGEST LIVING TRANSACTIONS

BASE CAMP

Date	Q2 2022
Cities	Łódź, Wrocław, Katowice
Number of apartments	1987
Estimated value	€ 108 M
Seller	BaseCamp
Buyer	Xior Student Housing
Transaction type	Operating asset

METRO ZACHÓD

Date	Q4 2022
City	Warsaw
Number of apartments	400
Estimated value	€ 62 M
Seller	Dom Development
Buyer	Confidential
Transaction type	Forward

OSIEDLE AURORA

Date	Q1 2022
City	Warsaw
Number of apartments	400
Estimated value	Confidential
Seller	Dantex
Buyer	Heimstaden Bostard
Transaction type	Forward

RACŁAWICKA 58

Date	Q3 2022
City	Kraków
Number of apartments	330
Estimated value	Confidential
Seller	Activ
Buyer	Zeitgeist Asset Management
Transaction type	Forward

PERECA 11

Date	Q2 2022
City	Warsaw
Number of apartments	193
Estimated value	€ 32 M
Seller	Catella European Residential Fund
Buyer	VIG
Transaction type	Operating asset

TRIO KRAKÓW

Date	Q4 2022
City	Kraków
Number of apartments	291
Estimated value	€ 28 M
Seller	Catella European Residential Fund
Buyer	Van der Vorm Vastgoed
Transaction type	Operating asset

5 FINANCING & TRANSACTION STRUCTURES

Bank financing

Experience shows that more and more financial institutions are opening up to the idea of financing build-to-rent projects and private student houses. One of the most active banks on the market is Santander Bank Polska which among other things entered into a consortium with Helaba (Landesbank Hessen-Thüringen) and financed four development projects of Resi4Rent amounting to PLN 198 million.

Another active bank is Bank Pekao, which participated in financing the Resi4Rent platform for the construction of PRS projects to the tune of some PLN 250 million, PRS projects for the Cavatina Group to the tune of PLN 146 million, and Student Depot student houses amounting to PLN 166 million.

In December 2022, it was announced that the European Bank for Reconstruction and Development (EBRD) had lent up to EUR 50 million to Resi4Rent. The funds were provided under the EBRD Resilience and Livelihoods Framework and will be used to develop and operate a portfolio of rental apartments across the country with focus on Warsaw, Kraków, Wrocław, Gdańsk, Łódź and Poznań, amid a chronic housing shortage exacerbated by inflation and an influx of refugees from Ukraine. This is the first case of EBRD financing for the PRS sector in Poland.

Our market research shows that **over 50%** of financial institutions plan to finance at least one PRS project in 2023. Regarding financial parameters, our respondents indicated maximum LTC ratios for development financing of **40-60%**, and maximum LTV ratios for investment financing of **40-55%**.

Most of the PRS transactions were based on loans from Polish banks, with the loan currency and planned rental income being predominantly in PLN. Rising interest rates resulted in higher financing costs, affecting the profitability of projects. Financing in EUR may prove to be a solution here. We see more banks believing in such a direction, and they are currently working on suitable products for the PRS sector. It is worth noting that obtaining financing in EUR may even be available to PRS investments whose rental portfolios are not expressed solely in EUR, but also partly in PLN. Such options pave the way for a sequential, cautious introduction of the EUR to the PRS market. Currently, the financing costs for developments are higher than development yields – a situation that negatively affects returns.

Average investment financing costs in EUR are above prime yield levels, creating an imbalance which has to be stabilised.

BRENDAN LONG

Head of Property Department, Santander

Santander

Santander Group has a long history of successful financing of PRS/PBSA in numerous markets at varying stages of sector development. We have been financing the sectors for several years in Poland and see significant future growth potential. We provide development and/or investment financing in both PLN and Euro, and we are keen to cooperate with and grow alongside Business Partners with relevant experience, globally and locally, in PRS/PBSA. As these are emerging sectors in Poland, our financing parameters are not fixed, but are tailored to the specifics of each project, and can be adjusted based on performance. Our principal aim is to have sustainable assets matched effectively to sustainable long-term financing.

Fot. Resi4Rent

Forward structures

Featured below are the two primary ways of acquiring new PRS properties – a model that allows investors to acquire greenfield projects. In both cases, the investor has to be engaged in the project in the very early stages. The main difference between these structures is when the ownership of the project is transferred to the investor and how it is financed by the investor.

Forward funding

With respect to forward funding, the parties enter into a sale and purchase agreement at the beginning of the construction process. During the course of the construction, the investor provides financing for the project, usually in the form of advance payments towards the purchase price.

INVESTOR BENEFITS:

- Improved return on equity (ROE).
- Acquires the right product for the rental market.

DEVELOPER BENEFITS:

- Less developer risk.
- More flexible project financing than that available from banks.
- Avoids commercial costs and risks.

Forward purchase

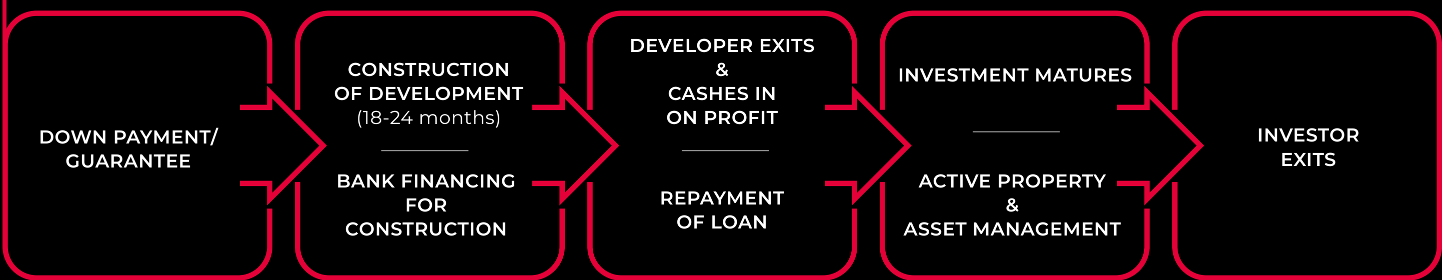
The investor commissions the construction project by signing a standard construction contract with the developer. The investor makes an initial down-payment (10-15%) and the purchase is financed by the investor at the end of the process, i.e. at the time of ownership transfer. Such a structure was preferred by investors in 2022.

INVESTOR BENEFITS:

- Lower initial down payment, the bulk of the investment is made once construction is complete.
- No risks until delivery (maximising available capital).

DEVELOPER BENEFITS:

- Easier to access bank financing with a purchase agreement signed for the entire development.
- No pre-sale requirements prior to construction.



6 THE BAROMETER OF SENTIMENT

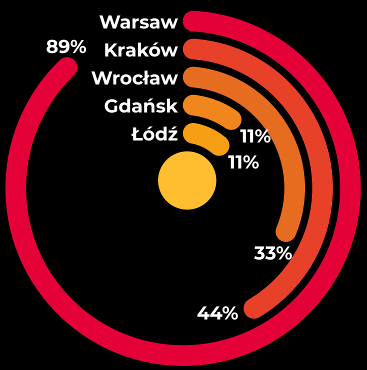
Over **80%** of investors plan to acquir projects in 2023.

Almost **60%** of respondents foresee decreases in construction costs in H1 2023.

Almost **40%** of investors plan to introduce rents in EUR in some locations.

Over **50%** of the banks which responded have already financed a BTR/PBSA project in Poland and are planning to finance BTR/PBSA projects in 2023.

Graph: In which cities are you planning to open new Living projects in 2023?



All of the banks which responded are able to provide financing in EUR, basing their decisions on whether the revenue is in EUR, and hedging considerations.

The majority of respondents see the PRS sector as an opportunity for diversification and allow for it in REIT structures.

The barometer of sentiment represents the views among the 25 institutionalinvestors, banks and developers active in the sector and was conducted on 20/12/2022.

e new

70% of respondents expect an increase in PRS opportunities in Poland in 2023.

Over 60% of investors consider a level of 5.25% to be a prime yield in Warsaw.

60% of investors consider residential zoning when analysing a new PRS project.

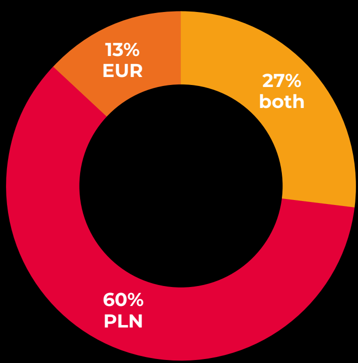
50% of investors assess positively the legal environment for financing, development and operation of PRS investments in Poland.

Fot. Heimstaden

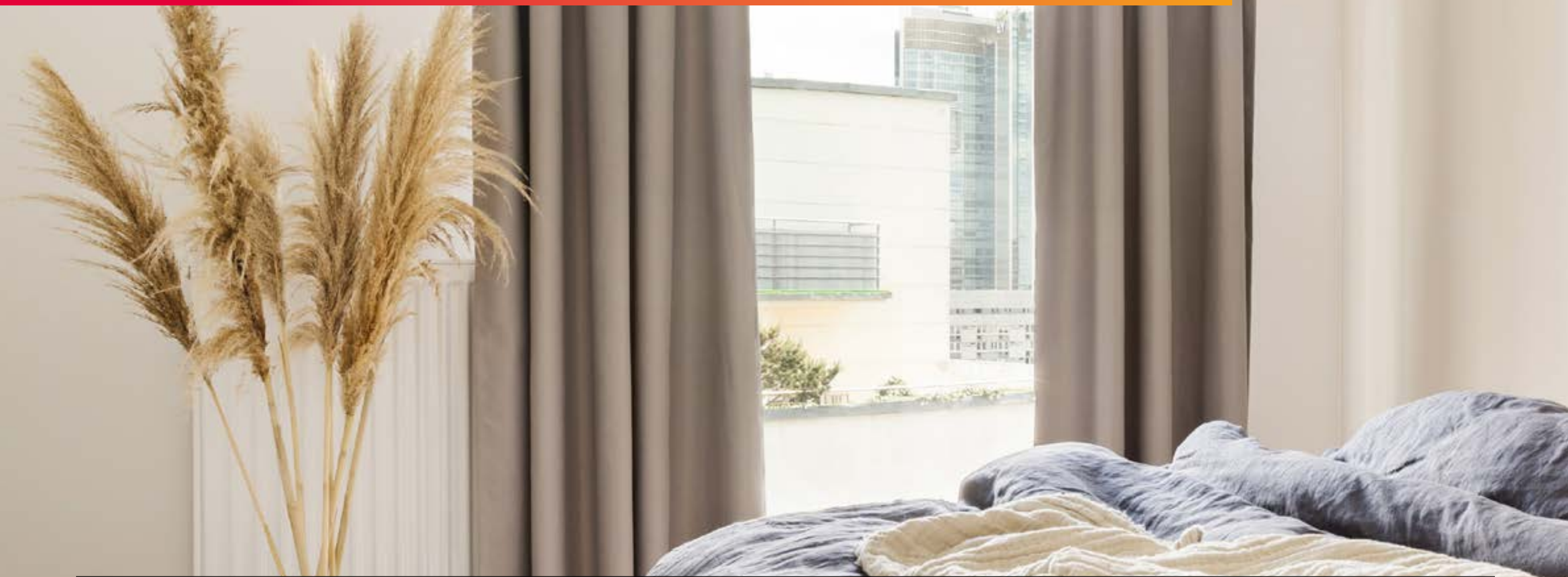
The majority of respondents point towards the unstable tax & legal environment as the PRS sector's main disadvantage.

The majority of respondents point to financing and construction costs as the main current risk to PRS projects.

Graph: What currency are the rent payments in from your tenants?



PRS FROM INVESTORS' PERSPECTIVE



SKANSKA

The fundamentals for the rental market are very strong in Europe. In countries like Poland the growth of the Private Rented Sector (PRS) has significantly accelerated over the last years and I believe there are good reasons to expect a double-digit annual percentage growth of the total supply in the coming years. Saturation of this market segment in Poland seems to be still marginal and the sector is at an initial stage of development. And in light of a sudden and very intense flow of immigrants from Ukraine following the Russian aggression in early 2022, the fact that supply lags behind the demand is even more visible. According to the latest announcements of Poland's Ministry of Economic Development, Labour and Technology, the supply gap in terms of flats for rent in this country stands at around 800,000.

Poles have traditionally preferred owning a place over renting it. According to the European Commission, less than 15% of Poles rent a place to live as compared to the EU-wide average of 30%. Not to mention countries like Germany or France where this index fluctuates between 40-50%. However, due to the increasing popularity of sharing economy paired with macroeconomic factors such as high inflation and increasing cost of debt financing, the openness of the local population towards renting a flat is on the rise.

Local supply-demand factors are crucial but trends from abroad that are being picked up locally may also have an impact on the PRS market outlook in Poland. An increasing number of single households, a growing need to belong and be part of a community – this is what we have observed in Western Europe for years and what is now more and more visible locally as well.

Socio-economic factors create good prospects for PRS in Poland, offering interesting opportunities for developers and investors. Yields in Central and Eastern Europe (CEE), currently estimated to be 100 to 200 basis points above those in Western Europe, additionally fuel dynamically growing demand and create an attractive environment for residential rental investments. Many projects are currently being launched in this region with investors recognizing the potential of this sector in various CEE locations and we can assume that this trend will continue. Skanska Group has a long experience in the rental housing market in the Nordics countries and United States. We will use this extensive experience in shaping our PRS strategy in Poland, which we believe is a very promising location for residential rental development.

ADRIAN KARCZEWICZ
Head of Divestments,
Skanska commercial development unit
in Central & Eastern Europe

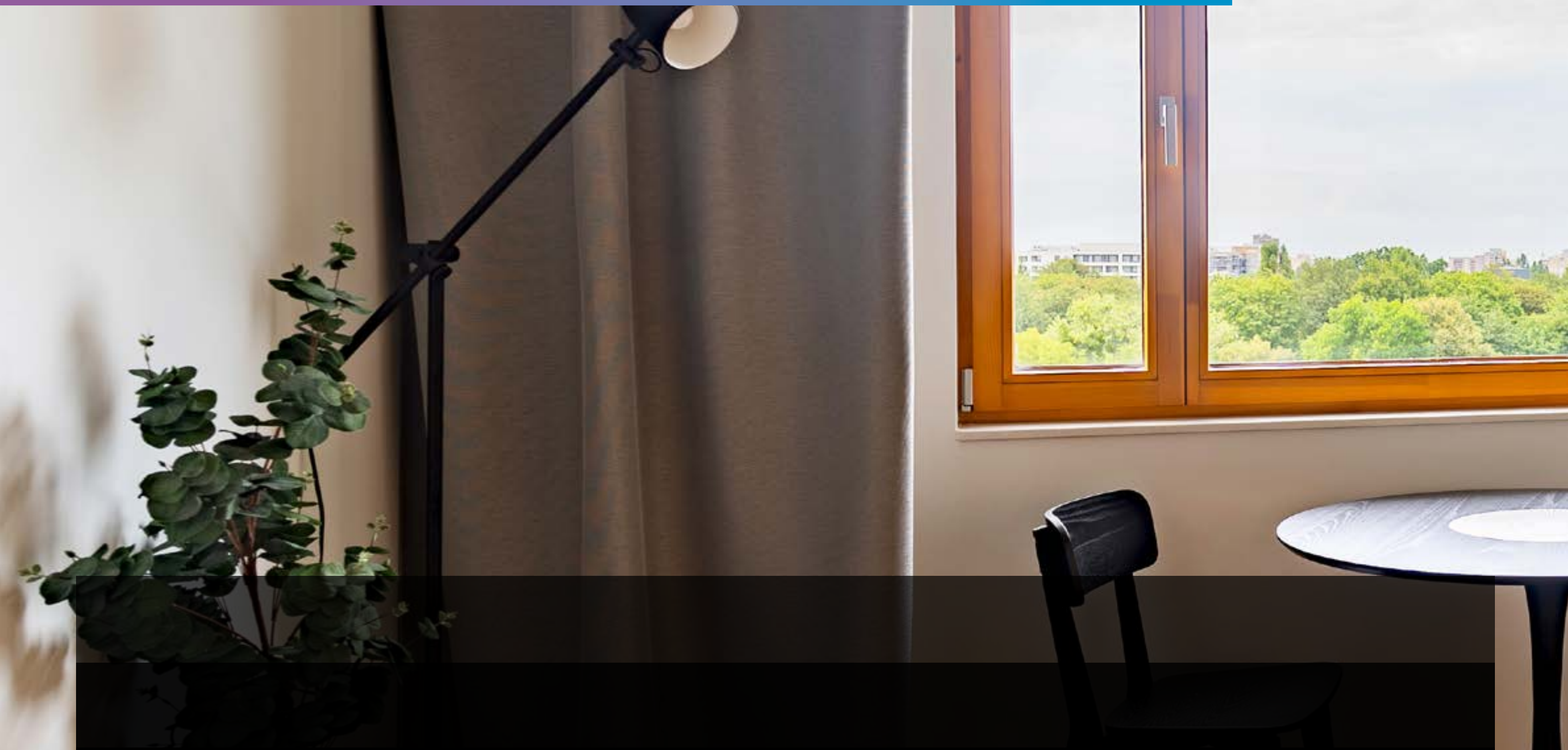
Fot. Heimstaden

Heimstaden’s flagship investment in the Polish market is the Bokserska housing estate in the south-western part of Mokotów. The project includes a total of 430 apartments. The first stage, with 146 units, was made available to tenants in the third quarter of 2022. From March this year, a further 284 apartments will be successively added to the offer. Bokserska, with its diverse nature, is true to Heimstaden values. There are both smaller apartments, designed for young, professionally active people, and three- and four-room apartments, designed for families with children. All apartments are rented based on simple, transparent and safe rules for both parties.

As a responsible, long-term investor, Heimstaden analyses each project in detail in terms of location. In Bokserska’s case, attention is paid to, among other things, green public spaces and walking areas, convenient access to public transport (tram, fast urban railway, Metro access), as well as proximity to numerous office, commercial and educational facilities. We know from customer satisfaction surveys what our tenants appreciate - i.e. the fact that most professional and private needs can be met „next door”, without the need for expending time on commuting.

PRZEMYSŁAW ORCHOWICZ
Country Manager,
Heimstaden

PRS FROM INVESTORS' PERSPECTIVE



Wolska 171 is a premiere project for a new PRS platform on the Polish market; one we are developing under the Habitu brand. The property is located at the intersection of Goleszowska and Wolska streets in Warsaw, in an ideal location, in the heart of one of the city's principal business districts. We offer 116 modern, small studios, which we have commercialized in just two months. The challenge for us, therefore, was to prepare all the apartments for rental as quickly as possible. Thanks to successful cooperation with Dantex, from whom we bought the building, as well as efficient work of the finishing and furnishing teams, everything was completed on time. The fast pace of rental is a testimony to the quality of our offer, and it also indicates a continuing imbalance in terms of supply and demand.

The community at Wolska 171 has an international character. As many as 80% of the apartments were rented by foreigners employed in Warsaw - in total, there are 21 different nationalities living in the first Habitu building. The residents are young people furthering their careers in Poland, and we are happy to support them in the formalities related to the lease. Some of the habits of our tenants related to utilities, however, are an issue,with the heavy user tenants consuming several times more water, electricity or heat than the Polish norm.

An undoubted innovation on our PRS market is the fact that the contracted rent is stated in euros. For the convenience of tenants, however, payments can be made in either euros or zloty.

Presently, we are focusing on the commercialization of the retail and service part of Wolska 171. By the end of the year, we also plan a several-fold increase in the number of apartments available in Habitu, with a longer-term plan of several thousand apartments within 5 years.

ARTUR KAŹMIERCZAK
Partner, PRS Programme Lead,
Syrena Real Estate


Fot. Syrena Real Estate

8 TRANSACTIONS ON THE PRS MARKET

Central to transactions on the PRS market is the need for the investor to engage in very close cooperation with the legal and tax team, but above all with the technical and commercial advisors, and specialists in the implementation of fit-out works. This is because the still emerging PRS market focuses on forward transactions consisting in a commitment to acquire a residential project executed by the developer, and financed by the investor at the initial stage and during implementation of the project. The reason for this is that there are still very few finished PRS products that can be traded.

Initial stage – defining the investment concept

PRS investments focusing on projects that are yet to be built have as their subject an architectural concept for a residential design. In situations where this concept has already been given a building permit, the investor theoretically gains time and cuts his risks related to completion of the administrative approval process. The permitting process is a time-consuming process that is prone to objections and neighbours' protests, so having a building permit in place might be seen as an advantage – unless the developer wants to optimize and adapt it to his business model. The scope of changes may be insignificant, but if they trigger the requirement of changes to the building permit, consideration must be given to all risks related to the administrative construction process and possible delays in project implementation. Determining the correct target concept of the PRS project is therefore crucial for the whole undertaking. Transaction documentation, prepared with the participation of legal and technical advisors, must indicate precisely the concept being implemented or at least set out transparent rules concerning negotiation and approval – and contractual consequences of no approval.

Fot. Vonder

Financing and monitoring of investments

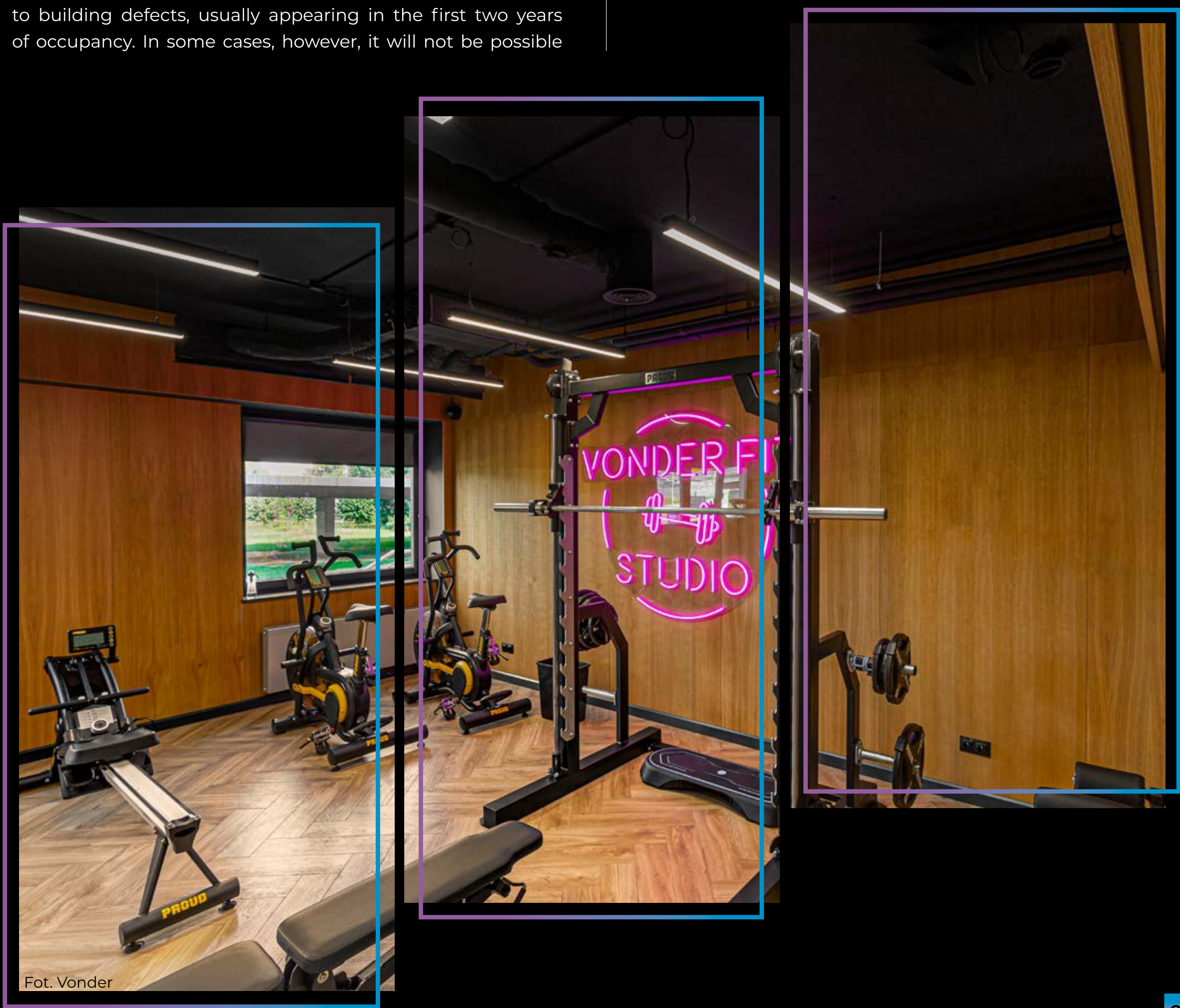
As project financing is usually provided by the investor, the relationship between the investor and the developer resembles the relationship between the developer and the financing bank. The investor will typically expect a similar scope of security as the financing bank in respect of the funds invested in the project. In addition to the obvious requirement that there are no risks related to the legal title to the real estate, there is also a need to provide the investor with an opportunity to secure its claims on the investor's property by establishing a charge on the property. As the value of such security usually does not correspond to the amount of the funds invested (the property gains value as the investment is completed), additional securities are necessary in the form of guarantees or sureties from the developer's affiliates with appropriate financial capacity. Also, at the stage of project implementation, the investor - just like a financing bank - must keep oversight of the construction process through a technical expert appointed by the investor (monitor). The monitor must have real insight into the progress of construction works and have basic authorization to approve the next stages of construction, and thus to launch subsequent tranches of investment financing.

Handover and acceptance of the project

The process of implementing a residential investment, as well as its handover and acceptance from the developer (and through the developer – from the general contractor) is the domain of the investor's technical advisors, as well as the developer's implementation team. Cooperation in this area is a condition for timely completion of the project and its ultimate success. At this stage, commercial advisors and interior fit-out specialists come to the fore, ensuring the final product suits the evolving preferences of clients. This stage is also a true test of contractual provisions – without a carefully described process of arrangements and acceptance and clearly defined roles of the investor, developer and monitor, it is easy to end up in a lengthy and costly dispute.

Transaction documentation and venture safety

The transaction documentation should ensure a smooth transfer of the completed project to the buyer. As the investor is interested in purchasing the finished product, this process usually takes place after the occupancy permit is obtained. As part of the project handover, the developer should provide the investor with all documentation related to the building under construction, which is necessary for its proper use. This includes, among others, energy performance certificates, which under legislative changes adopted for 2023 will be essential when leasing apartments. Moreover, it will be necessary to transfer to the investor the construction guarantees obtained from the general contractor and the building designer, as well as to secure the process of handling any complaints related to building defects, usually appearing in the first two years of occupancy. In some cases, however, it will not be possible to finalise the transaction immediately after obtaining the occupancy permit. In the case of projects implemented on land held in perpetual usufruct (public authority ground lease), obtaining an occupancy permit results in the transformation of perpetual usufruct into land ownership. Although this transformation happens automatically by operation of law, the regulations make real estate transactions involving the transformed real estate conditional on the issuance of a special certificate confirming the transformation. Currently, it takes several months to have such a certificate issued, and this time can be spent on finalising the offer to future clients and marketing activities.



Fot. Vonder

9 ZONING ISSUES

What should be the starting point for a PRS project?

Investments in the PRS market require in-depth analysis in terms of their feasibility in a given location. When starting to plan a new project, it is crucial to scrutinise the zoning opportunities and limitations related to the land intended for such investment. This is particularly important as Polish zoning regulations do not provide for a separate category of functions corresponding to the Build-To-Rent (BTR) concept. The absence of this category causes considerable confusion and interpretation doubts and, sadly, new planning regulations on the content of master plans implemented in 2022 brought anything but clarity in that area. Despite introducing new planning categories, new regulations failed to recognise BTR as a separate planning category, a definite missed opportunity. The controversy in this respect is exacerbated by discrepancies in both the regulations and the jurisprudence of administrative courts. Moreover, as the pool of land expressly designated in master plans for housing projects is constantly shrinking, investors' attention is turning to areas with different development purpose allocations, which may not always be legally suitable for BTR investments.

What areas are suitable?

The master plan determines the framework of the building's final use. In PRS projects, as a rule, their purpose is to satisfy housing needs. The issue whether a client will use the apartment for a short or long term does not affect the zoning qualification of a PRS project. The PRS investment projects should, therefore, be located on land designated in master plans for multi-family housing with acceptable retail-service function (land marked as MW or MW/U).

Can any residential building become a PRS investment?

In general, the regulations distinguish between residential and non-residential buildings. In the Polish Classification of Types of Constructions (in Polish: *Polska Klasyfikacja Obiektów Budowlanych, PKOB*) ("**Classification**") the "residential" building category includes single-family and multi-family houses, and collective residence buildings (residential houses for elderly people, students and other social groups, boarding houses, school dormitories). Hotels, tourist accommodation buildings and the like belong to the category of "non-residential" buildings.

Buildings are defined differently in another important legal instrument - the Regulation of the Minister of Infrastructure on technical conditions to be met by buildings and their location ("**TC Regulation**"). According to the TC Regulation, collective residence buildings do not belong to residential buildings category but constitute a separate category of buildings intended for temporary stay (e.g., hotel, motel, guesthouse, rest house, excursion house, youth hostel, hostel, boarding house, student house). There is no doubt that multi-family residential buildings are the essence of PRS investments. Controversies arise, however, when it comes to "collective residence" buildings, which, although recognised as residential buildings in the Classification, are treated differently in the TC Regulation as buildings designated only for temporary stay and allocated to the same category as, for example, hotels. Neither the Classification nor the TC Regulation include "collective residence" buildings in the category of "non-residential" buildings. The distinguishing feature of collective housing is therefore the period of stay, which is not expanded on in legislative documents. In other words, there is no clear legal guideline on what "temporary stay" actually means in the context of property development.

The Classification and the TC Regulation describe potential PRS buildings in different legal terms and this ambiguity also extends to provisions of particular master plans. This adversely affects areas which are not clearly designated for residential investments (MW or MW/U), but instead have different land-use designations, allowing for services, non-residential buildings of various types, etc. Master plans may also differ significantly in terms of details, even within one municipality. Each PRS investment should therefore be coupled with a thorough analysis of the applicable regulations on spatial development of the real estate, especially as regards areas that are, in principle, intended for service or service-like purposes.

Does the lack of a master plan preclude PRS investments?

The absence of appropriate land-use designations in the master plan does not block the way to developing a PRS project. The investor may obtain a decision on zoning conditions ("**Zoning Decision**") provided that various requirements are met. The main constraint on obtaining a Zoning Decision is the requirement to have existing investments of a similar nature and height in the vicinity.

Fot. LivUp

Fot. Resi4Rent

The investor may also utilise a special option contained in the Act commonly referred to as ‘Lex Developer’, which makes it possible for the investment to go through in a manner that is completely independent of (and therefore possibly completely inconsistent with) the applicable zoning arrangements. The only measurable restrictions imposed by law on an investor wishing to use ‘Lex Developer’ are: (i) the planned investment does not run counter to the municipality’s zoning study (some areas are excluded from this restriction), and (ii) the project respects the required distance from public facilities such as bus stops, schools and recreational areas. To use this option the developer requires a special resolution of the municipal council, which, for many reasons, is very difficult to obtain. The main obstacles lie in having to convince a majority of councillors to back a project of a type that the local authority had not planned in this area.

Will changes to the zoning and spatial development act accelerate investments on the PRS market?

The emerging concepts of amendments to zoning regulations do not include detailed solutions for PRS investments. An important step would be to standardise the terminology of the admissible types of investments in individual master plans. As explained above, investors will still have to navigate choppy waters in terms of possible interpretations. Recent months have seen increased legislative activity aimed at preparing regulations that should, in principle, increase the availability of areas for possible residential development and enable quick change of use of office and retail buildings to residential. The solutions are intended to apply primarily to areas that in the past experienced extensive office and retail development, and which now require ‘reviving’ through re-purposing as residential areas. One new proposal seeks to increase the number of apartments designated for use by local authorities to accommodate the housing needs of local communities. In general, these proposals should be considered a desirable path to increase the potential for residential development. They need, however, to be coordinated and aligned with the interest of developers, PRS investors and end-use residents.

To rent or to buy an apartment? The best solution for the present times

The essence of the BTR concept is to meet housing goals in the long-term perspective. Therefore, in view of volatile market conditions and sky-rocketing interest rates, residential premises intended for long-term rental have become a very interesting alternative to home ownership. The main arguments for are the lack of long-term financial obligations in the form of a mortgage, and greater mobility and freedom when moving home. A key element for further development of the market is a mental shift occurring in both the generation entering the workplace and the generation that is already firmly established in this market and shapes trends. Stability is no longer viewed as simply living in the same place for years. At the same time, people have not abandoned their dreams of home ownership. The BTR concept can make the dream come true more easily than a long-term mortgage. The PRS market should also factor in the recent influx of refugees from Ukraine. Half of those currently in Poland have found legal employment and many of them will choose to stay even after the war is over. Numbers are impossible to predict at this stage, but they will doubtless increase housing pressures. The growing importance of institutional renting will certainly significantly change the housing culture in Poland in the years to come.

Fot. LivUp

10 RESIDENTIAL RENTAL AGREEMENTS

Investors have major concerns as regards the stability of rental agreements on the Polish housing market. For many years, the lack of appropriate legal regulations posed significant risks for the landlord if the tenant falls behind on rent and does not want to move out voluntarily. It may take several months to complete the standard eviction procedure, which includes getting a court judgment and involving a court enforcement officer. There is a loss of expected rental income, extra cost and hassle and the prospect of further legal wrangling to recover arrears etc.

New legal regulations and new opportunities

The concept of institutional renting offers new solutions that afford investors greater security. It has been introduced to the legal system quite recently and is similar to occasional renting – a solution available to individuals for some time now.

The two essentials of institutional renting are (i) a fixed term rental agreement, and (ii) the tenant having to produce a notarial deed that enables a quick, painless eviction.

New obligations

PRS operators have to comply with new requirements, which will affect the commercialization of the project. EU regulations will shortly require landlords to provide tenants with an energy performance certificate for their particular individual apartment. Failure to do so will attract a fine. Leasing offers and advertising materials will need to contain information on annual demand for energy consumption for the apartment (incl. renewable energy used) as well as carbon dioxide emissions.

Other security measures

The standard security measure for claims pursued on the basis of the rental agreement is a deposit in the amount of one-month's (or several months') rent. The deposit is paid to the landlord's bank account and returned after the rental term has lapsed, the condition of the premises after its return has been verified and the costs of any repairs have been settled.

This table presents the characteristics of residential rental agreements available in the Polish legal system:

	RENTAL / ACCOMMODATION SERVICES AGREEMENTS	RENTAL AGREEMENT FOR PROPE IN THE COMMUNITY HOUSING STO
PURPOSE	**temporary accommodation**	**meeting the housing needs of a self-government community**
TENANT AND LANDLORD	• **tenant:** natural / legal person • **landlord:** entrepreneur	• **tenant:** a person with low-income ho • **landlord:** self-government communi
TERM	fixed term (short term of the agreement)	only non-fixed term (unless the tenant requests a fixed-term agreement)
NOTICE PERIOD	short notice period to emphasize the agreement's temporary nature	statutory notice period
TENANT'S FEES	• basic remuneration including service charges • weekly payments • fees for additional services	the rent amount for renting residential premises is regulated by the statute; additional fees for the use of the premis
SECURITY FOR PERFORMANCE OF TENANT'S OBLIGATIONS	• cash deposit • retention of funds on the client's card • declaration on voluntary submission to enforcement	optional cash deposit, statutory deposit cap

Fot. LivUp

ERTIES OCK	INSTITUTIONAL RENTAL AGREEMENT	B2B LEASE AGREEMENT
	meeting housing needs	**running a business**
usehold ty	• **tenant:** natural person • **landlord:** only a natural person, legal person or an organizational unit that is not a legal person, running a premises rental business	• **tenant:** entrepreneur • **landlord:** entrepreneur
	fixed term	fixed term
	statutory notice period; the parties may set the notice period in relation to additional grounds for termination agreed by the parties in the agreement	the parties may agree the notice period in the agreement
ses	rent and fees independent of the owner, unless the institutional rental agreement provides otherwise	• monthly rent • monthly advances towards service charges • utility charges
	• optional cash deposit, statutory deposit cap • declaration on voluntary submission to enforcement and the obligation to vacate and hand over the premises must be attached to the agreement	• bank guarantee • cash deposit • parent company's guarantee / surety • declaration on voluntary submission to enforcement

11 TAX ASPECTS OF PURCHASING RESIDENTIAL REAL ESTATE IN POLAND

1 What key things should I look out for when investing in residential real estate?

Different tax issues arise depending on the structure adopted (investment through a Polish entity or directly through a foreign entity). They will affect the efficacy of investments and the level of interest from potential future buyers. Smart structuring of investments from the tax perspective at an early stage of planning is an extremely important element in ensuring profitability of the whole venture.

Pay particular attention to:

- optimal structure for the investments and the buyer's tax status;
- tax consequences of purchasing real estate in the context of corporate income tax (**CIT**), VAT and tax on civil law transactions (**TCLT**);
- tax consequences of the buyer obtaining financing;
- CIT and VAT taxation of operating activities, as well as the level of burdens with respect to real estate tax (**RET**).

NOTE: In Poland, tax practice regarding the purchase and lease of entire residential or mixed-use buildings is still developing and may be subject to various interpretations. The preparation and planning of investments in this area requires special care and diligence.

2 Any big differences between taxation of Polish and foreign investors?

As a rule – no. Polish and foreign entities may purchase residential real estate in Poland. With respect to CIT, the buyer can be a tax transparent entity or a company subject to taxation with CIT. Even with CIT-exempt investment funds (Polish and foreign), this exemption generally does not include income from lease of real estate.

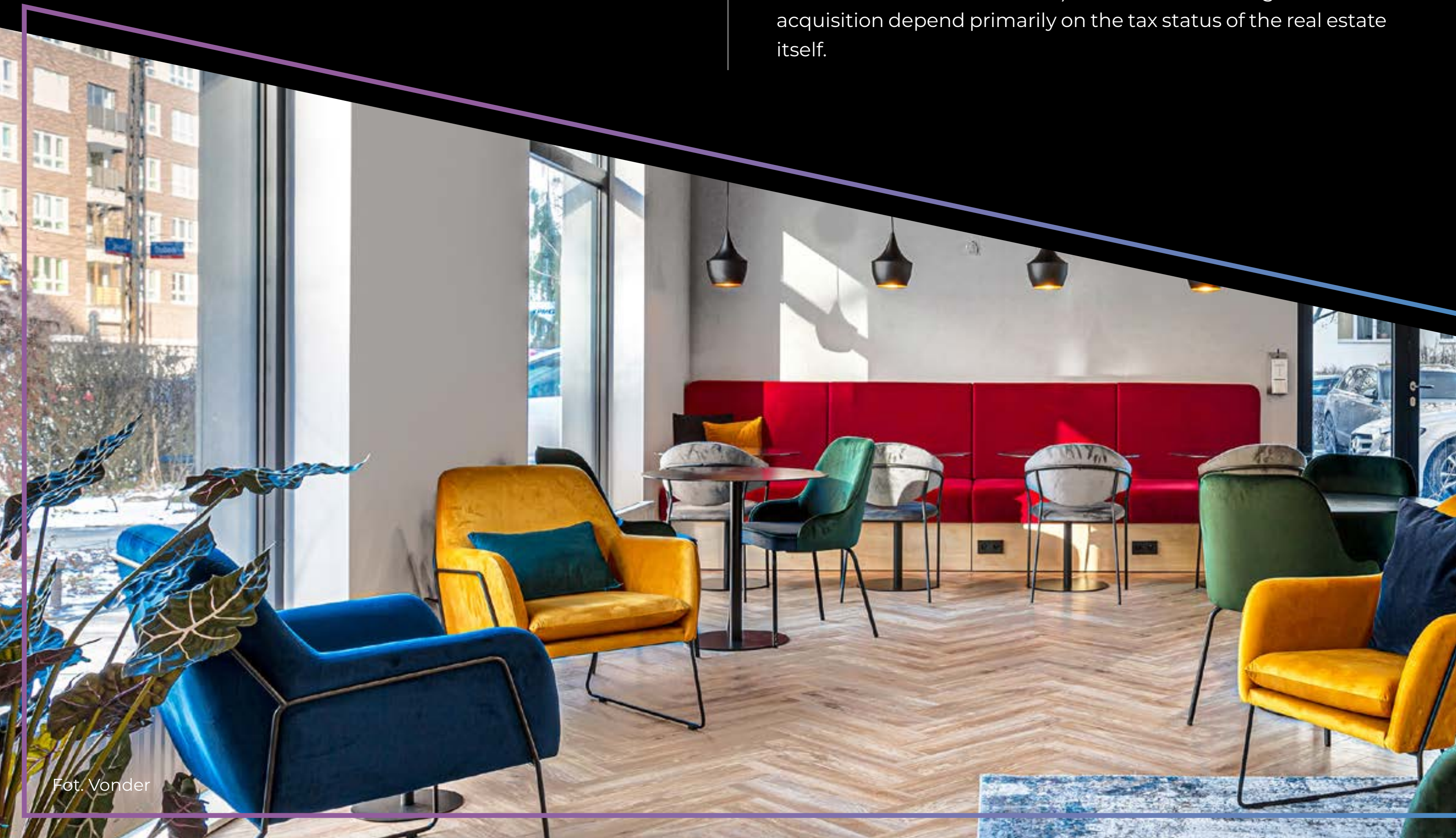
To date, the most popular form of investing in real estate assets in Poland has been a Polish limited liability company. Recent years have seen a significant increase in the number of transactions in which the buyer is a foreign entity. In terms of taxation, this formula of investment in Poland does not differ significantly from investment through a Polish company, but may slightly simplify flows and reduce obligations regarding, for example, withholding tax.

3 What are the VAT consequences of purchasing residential real estate in Poland?

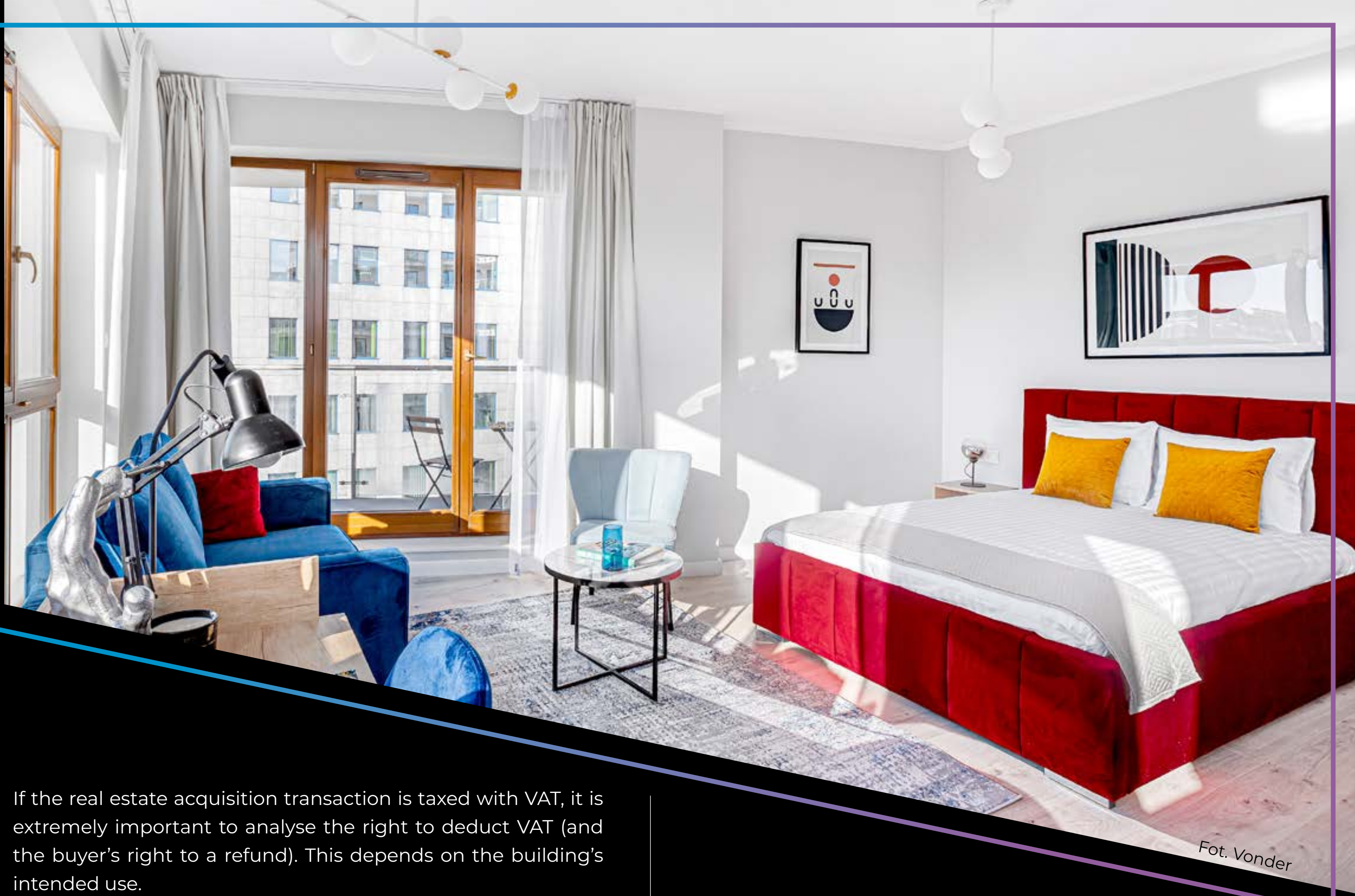
The purchase of developed real estate may:

- be taxed with VAT
- be exempt from VAT or
- be outside the scope of VAT.

In the latter two cases, the purchase of real estate will in principle be subject to 2% TCLT payable by the buyer (which unlike VAT is not refundable). The rules for taxing real estate acquisition depend primarily on the tax status of the real estate itself.



Fot. Vonder



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If the real estate acquisition transaction is taxed with VAT, it is extremely important to analyse the right to deduct VAT (and the buyer's right to a refund). This depends on the building's intended use.

Example:

A building is to be fully used for rental purposes subject to VAT at the rate of 8% or 23%. Here, the buyer should have the full right to deduct VAT.

The VAT Act also provides for correction rules for change of intended use within a certain period of time after acquisition (e.g. from VAT-exempt use to use subject to VAT and vice versa).

Example:

Part of the building (e.g. 20 separated premises) is to be used for VAT-exempt activities. Here, the buyer will not be entitled to deduct VAT on the purchase price of the premises acquired for the purposes of tax-exempt activity.

The right to deduct and refund VAT in connection with the acquisition of real estate will also depend on the business model.

Example:

The buyer will lease the entire apartment building to a company subletting the property. According to the tax authorities' current line of interpretation, the rent obtained by the buyer should be taxed at 23% VAT and, thus, the buyer should have the full right to deduct VAT in connection with the real estate acquisition. However, this business model may result in the subletting company not having the right to deduct the VAT charged on the rent for premises sublet to natural persons with a VAT exemption.

The choice of business model requires a detailed tax and financial analysis to identify flows and potential tax leaks, and to estimate their size over time. Information on the VAT taxation of different types of leases is provided in Q6.

NOTE: The correct tax classification of the subject of the transaction (as an enterprise / organised part of an enterprise or standalone asset) and the application of the correct VAT tax rates, at both the acquisition and operating stages, is extremely important not only due to the impact of VAT on cash flows (including leakages, if any), but also due to the heavy penalties available to the tax authorities for irregularities, including additional 20% or 30% VAT liability and penal fiscal liability of management board members.

4 How are expenses relating to the purchase of residential real estate accounted for in respect of CIT purposes?

As a rule, expenses for the purchase of land do not constitute tax-deductible costs. They may be deducted for CIT purposes only upon the sale of land.

On the other hand, as a rule, expenses for the purchase (or development) of a building or premises, which is subject to accounting depreciation and will be used by the buyer for a period longer than one year, may be recognized as tax deductible costs via depreciation write-offs.

Depreciation rates:

- 1.5% per annum for new residential buildings and premises,
- 2.5% per annum for new non-residential premises (e.g. service premises),
- higher rate (up to 10%) for buildings and premises used by previous owners for a period of at least 60 months,
- 4.5% per annum for structures.

Separate rules may apply to the CIT settlement of premises equipment, which – depending on value and type – may be treated as tax-deductible as a one-off or through tax depreciation (usually at the rate of 20%).

IMPORTANT NOTE: As of 1 January 2022, **residential buildings**, apartments constituting separate properties, cooperative ownership rights to apartments and rights to a single-family house in a housing cooperative (used for business purposes) are not depreciable for Polish income tax purposes (costs of acquisition or development of such facilities are recognised only upon sale).

For buildings and premises other than residential owned by real estate companies (as defined under the Polish CIT rules), tax depreciation write-offs qualified as tax deductible are limited by the amount of depreciation write-offs made for accounting purposes and charged to the entity's financial result in the fiscal year. Hence, if the property is not subject to accounting depreciation, depreciation write-offs are not tax deductible for Polish CIT purposes.

5 How to provide the buyer with cash for the purchase of real estate and how to account for financing costs for tax purposes in Poland?

As a rule, the buyer can obtain cash for the acquisition of real estate in the form of a contribution from a shareholder or through debt financing. The following tax issues should be considered:

CASH CONTRIBUTIONS (INCLUDING ADDITIONAL PAYMENTS)	DEBT FINANCING
• neutrality in terms of CIT and VAT; • TCLT paid by the company receiving the contribution at the rate of 0.5% of the contribution's value (except for the *agio* – the surplus of the issue value over nominal value of the new shares).	• limiting the deductibility of interest on financing based on the regulations implementing the ATAD I Directive (30% of tax-EBITDA or PLN 3 million, whichever is higher); • limiting the deductibility of interest on financing based on the provisions implementing the ATAD II Directive (provisions preventing discrepancies in the tax qualification of hybrid structures); • proper assessment of interest payments in the context of withholding tax provisions (including due diligence, determination of the beneficial owner of interest and the potential risk of applying tax anti-abusive clauses), taking into account potential exemptions from this tax or possible lower rates resulting from double tax treaties; • in the case of financing obtained from related entities – analysis in terms of transfer pricing regulations (arm's length principle); • TCLT at the rate of 0.5% payable by the borrower (exemptions apply regarding shareholder loans and loans constituting a financial service exempt from VAT, among others).

Fot. Resi4Rent

6 How is VAT charged on the lease of real estate?

The lease of real estate by a taxpayer in connection with their business activity is subject to VAT at the rate of 8%, 23% or is exempt from VAT. The rate depends on the purpose of the lease and the use of the rented building or individual premises.

Example:

VAT at 23%

- *lease of a residential property to another taxpayer that subleases that property to individuals,*
- *rental of service premises to another business (B2B),*
- *renting an apartment for non-residential purposes (e.g. for office purposes),*
- *rental of garage space.*

VAT at 8%

- *rental of residential premises for the provision of accommodation services.*

VAT exemption

- *rental of real property of residential nature or part of real property, on one's own account, solely for residential (housing) purposes.*

NOTE: The qualification of services provided as accommodation services (8% VAT) or rental for residential (housing) purposes (VAT-exempt services) is in practice controversial due to the lack of relevant statutory definitions and the limited practice of the tax authorities in this respect. There are no well-established and unambiguous criteria or guidelines developed to allow for a simple distinction between these services. It is usually assumed that an accommodation service is short-term rental of premises for business or leisure purposes. However, if the tenant's intention is to permanently reside in the premises and fulfill their housing needs, then this service should in principle be classified as renting premises for residential (housing) purposes. In practice, the classification / type of the rented property may affect the VAT taxation of lease. The appropriate qualification of the service provided by the landlord is crucial, since – assuming that the purchase of a residential building taxed with VAT – the structure of leases in a building (taxable lease vs. VAT-exempt lease) may directly affect the scope of the buyer's right to deduct VAT or the obligation to make appropriate corrections (the correction period for real estate is 10 years, and for other fixed assets 5 years), as well as, for example, the scope of the right to deduct VAT in connection with the purchase of services related to VAT-exempt activities. It is important to consider possible business models at the investment planning stage, taking into account the impact of adjustments on the rate of return on investment.

Fot. Resi4Rent

7 How is the lease of real estate taxed with CIT?

Rent constitutes the landlord's taxable revenue. The landlord's tax costs may be any expenses related to the business and incurred in order to generate, maintain or secure the source of income, including, for example, depreciation write-offs, financing costs (subject to appropriate restrictions), RET, or general operating costs (such as legal, tax, accounting services, management costs, etc.). The CIT Act contains a list of costs that are not tax deductible (e.g. certain contractual penalties and damages, representation costs), as well as provisions limiting the possibility of including certain expenses as tax deductible costs (e.g. excessive financing costs).

Income from real estate (taxable revenue less tax deductible costs) is subject to CIT at the rate of 19%[1] regardless of whether the landlord is a Polish or foreign entity.

The landlord's activity may also be subject to the tax on revenues from buildings (also known as the minimum CIT levy), which is 0.035% per month (0.42% annually) of the initial value adopted for tax purposes of the taxable building(s) (the basis for calculating the tax is reduced by PLN 10 million). To put it simply, this tax is ultimately imposed on the landlord's activity only in cases where the amount of this tax is higher than the amount of CIT payable under general rules[2].

Moreover, as from 2022 two new taxation concepts have been introduced to the CIT Act: (i) 19% tax on 'shifted profits (which replaced the CIT deductibility limitation with respect to intangible services) and (ii) 10% minimum income tax. Both were also substantially adjusted by the most recent amendment to the CIT Act effective 1 January 2023, which, amongst others, suspended the effect of the minimum income tax until 2024 (i.e. the regulations on minimum tax will not cover income generated in 2022 and 2023).

The tax base for the tax on 'shifted profits' includes the expenditures (e.g. fees for intangible services and financing costs) incurred for the benefit of foreign related party and deducted for CIT purposes in a given tax year, if certain conditions are met. This tax will not apply to fees paid to a related party that is tax resident in an EU/EEA country and conducting „genuine and material economic activity" there.

As a side note, the CIT Act defines real estate companies and imposes reporting obligations on them (and some of their shareholders).

[1] Taxpayers who meet certain criteria (including, income-related criteria) may settle CIT at the rate of 9%.

[2] The amount of the minimum CIT not deducted from the tax paid on general principles is refundable at the taxpayer's request, if the tax authority does not find any irregularities in the tax liability or tax loss in the submitted tax return and the minimum tax, in particular, if the costs of debt financing incurred in connection with the purchase or construction of the building, as well as other revenues and costs, were determined on an arm's length basis.

8 How is RET charged?

As a rule, land, buildings (parts thereof) and structures are subject to RET. The buyer of real estate (not a private individual) should submit a RET declaration to the competent tax authority in timely fashion and – starting the month after purchasing the real estate – pay tax installments. Installments are payable by the 15th day of each month, and for January – by January 31.

RET rates are established in the form of a resolution of the municipal council and set within statutory brackets. If the purchased real estate is to be used as part of the buyer's business (renting buildings or separate premises), the maximum tax rates for 2023 are as follows:

- land: PLN 1.16 per m^2
- buildings or parts thereof (including residential buildings): PLN 28.78 per m^2 of usable area (calculated in accordance with the provisions on RET)
- structures: 2% of their initial value adopted for CIT purposes

The property tax paid constitutes a CIT deductible cost.

9 What are the tax consequences of selling real estate in Poland?

ASSET DEAL	SHARE DEAL
• CIT: As a rule, sale of real estate located in Poland is subject to CIT on general principles. 19% CIT is charged on the income from sale of real estate (difference between the sale price and the net tax book value of the real estate). • VAT/TCLT: Sale of real estate is taxed as per Q3 above.	• CIT: Sale of shares in a Polish company by a foreign shareholder is not subject to taxation in Poland, unless the relevant double tax treaty contains the so-called real estate clause – then the profits from the sale of shares (stocks) will be taxed with CIT at 19% in Poland. • In the case of (direct or indirect) sale by a foreign shareholder of at least 5% of shares (stocks) in a Polish real estate company (as defined in the CIT Act), the obligation to pay a CIT advance on the capital gains may be imposed on this Polish real estate company (acting as a tax remitter – the seller of shares (stocks) should provide such company with funds to pay this tax advance). However, this obligation arises only if the double tax treaty includes a real estate clause. • TCLT: As a rule, sale of shares in a Polish company is subject to 1% TCLT payable by the buyer.

10 What kind of changes are planned in the tax legislation concerning residential property investors?

There have been rumors for some time about possible changes to the tax legislation and various concepts for taxing PRS institutional investors, but as of the date of this report, no official draft changes have been published.

According to government officials, current legislative analyses focus on taxing entities buying more than 5 apartments (on the primary or secondary market) per annum. Tentatively it is planned to make each purchase over this limit liable to 6% stamp duty levied on its fair market value.

It should be noted that so far this proposal has been widely criticized, as it would negatively affect the Polish residential market. Namely, not only PRS investors, but also developers who are facing problems related to limited purchases of apartments by individuals (who struggle with high interest rates on financing), would suffer the consequences of this new tax. Undoubtedly, the change could also indirectly impact individuals who prefer renting apartments because they simply do not want to buy them (e.g. because they value their mobility) or cannot afford them (e.g. due to increasing interest rates) - the new tax may reduce the supply of apartments available for rent (whereas PRS investors could unlock the market and buy some of the projects that otherwise would not even be completed).

Also, investors buying apartments and not renting them out are in the taxman's sights, but so far, no clear concept on how to tackle this issue has been formulated.

Fot. Resi4Rent

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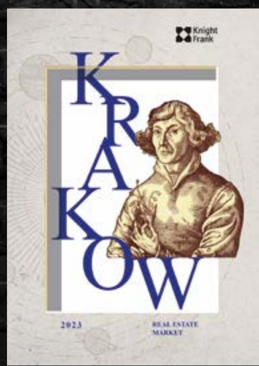

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