



Poland's residential market

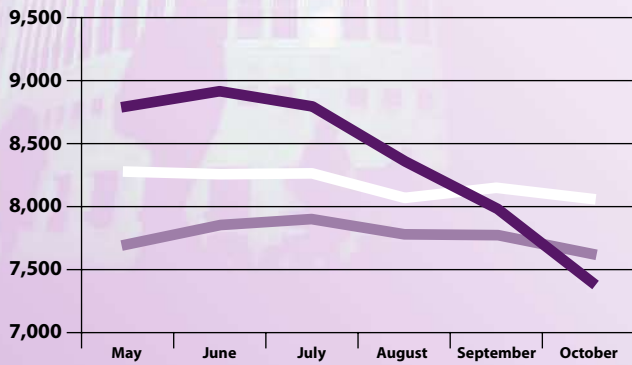
Report by redNet Consulting and tabelaofert.pl
SITUATION IN THE RESIDENTIAL MARKET
OCTOBER 2008

redNet Consulting

Siedziba Spółki
ul. Sądowa 5
43-600 Jaworzno
NIP: 632-18-79-602
KRS: Sąd Rejonowy w Katowicach
VIII Wydział Gospodarczy,
nr 0000226990
Kapitał zakładowy: 51.000 PLN
Zarząd:
Prezes: Robert Chojnacki
Wiceprezes: Agnieszka Piotrowska

Centrala Spółki
Wiśniowy Business Park
Budynek C
ul. 1-go Sierpnia 6a
02-134 Warszawa
tel: (+48 22) 318 72 00
fax: (+48 22) 318 72 53
e-mail: raporty@rednetproperty.com
e-mail: consulting@rednetproperty.com
www.rednetconsulting.pl

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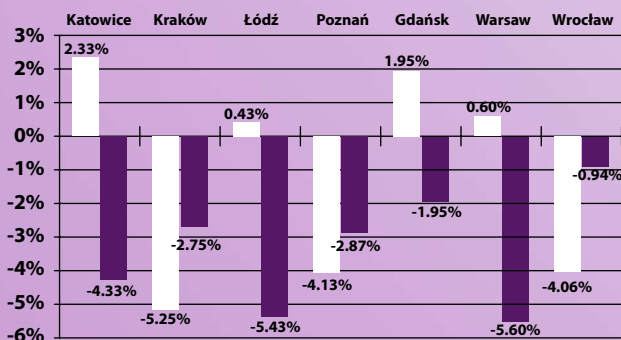


AVERAGE PRICE OF A FLATS IN EIGHT MAJOR CITIES IN POLAND
SOURCE: tabelaofert.pl

LEGEND:

- Average offer price – the average market price per sqm of all flats in developer projects put up for sale, as of 29th October 2008
- Average price of flats sold – the average price per sqm of flats sold in the last three months, i.e. from August to October 2008
- Average price of new flats on offer – the average price per sqm of flats in new developer projects put up for sale in the last three months, i.e. August to October 2008

Price of flats sold	August - October 2008	July - September 2008	The change %
Katowice	6,718	7,082	-5.14%
Kraków	7,530	7,673	-1.86%
Łódź	5,702	5,825	-2.11%
Poznań	7,304	7,620	-4.15%
Gdańsk	6,354	6,123	3.77%
Warsaw	8,624	8,823	-2.26%
Wrocław	8,298	7,980	3.98%
Szczecin	6,025	6,000	0.41%
The Warsaw Agglomeration	8,118	8,364	-2.94%
The Tri-City Agglomeration	6,099	6,069	0.49%
The Silesian Agglomeration	6,603	6,966	-5.21%
THE AVERAGE	7,633	7,784	-1.95%



THE CHANGE IN THE AVERAGE PRICE PER SQM OF A FLAT IN OCTOBER AND THE FORECAST CHANGE BY THE END OF 2008
SOURCE: tabelaofert.pl

LEGEND:

- change in the average price per sqm in October
- forecast change in the average price by the end of 2008

Lower prices of new projects

The average price of new projects put up for sale in the market in the eight largest cities in Poland is currently 7,440 PLN, and is by 7.11% lower than a month ago. In July we wrote: "In the next few months we are going to witness a gradual adjustment of the buyers and sellers' situation until the moment when the new offers put up for sale are by approximately 8% cheaper than the average market price - this is the adequate cost of risk of purchasing a flat which is going to be completed not earlier than in 1.5 years estimated by redNet Consulting." After the next three months we are currently facing exactly this situation – at the moment the discrepancy between the price of new flats put up for sale and the average market price is 8.7%.

It is clearly visible that the price of new projects is the fastest to fall. Such a situation takes place due to the fact that more and more flats from the popular segment are appearing in the market. The offer price is not falling so fast because developers are relatively unwilling to lower their price officially but instead of doing so they prefer to use various promotional means.

Also, the price of flats sold is falling, with the greatest decline being recorded in Katowice and Poznań. In the case of the eight cities in Poland the average price of flats sold decreased by nearly 2%. On the other hand, in Gdańsk and Wrocław slightly more expensive flats are being sold now in comparison to the previous period.

In October the average price of flats in the market offer significantly fell in Kraków (-5.25%), Poznań (-4.13%) and Wrocław (-4.06%). On the other hand, Katowice, Łódź, Gdańsk and Warsaw experienced a slight growth in the average price of the dwelling offer. By the end of 2008 the highest decline in the average price of flats available in the market offer should be present in Warsaw, Łódź and Katowice. On the other hand, the lowest fall should appear in Wrocław and Gdańsk.

When analysing the market from the angle of the average price it must be taken in the account that it is largely subject to the market composition. It means that the average price is high when the majority of flats in the market are in the high standard and it is relatively low when the popular segment predominates. It is important especially today when the market is being flooded by flats in the popular segment which is more accessible for buyers – especially in the face of "more difficult" credits.

The situation in the mortgage market itself is a great unknown. Let's then look at the whole situation in general. From the fundamental point of view there are no bases to say that the situation is bad; however, the crisis of the trust also hit the Polish financial market. Obviously, the more difficult a credit is to obtain, the lower liquidity of the sale of flats; however, it should be remembered that a more difficult credit hits not only a buyer of a flat but also an investor. This in turn is going to translate into lower supply. Even now the majority of investments which phase of realisation allows for giving them up are being suspended. Generally speaking the ongoing situation will impact both demand and supply. In relation to that in a longer period (than the present fluctuations) it can be forecast that the current situation will not have such a dramatic influence on the market as it is said to have (see: the forecast of a 50% fall in price).