



Poland's residential market

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

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The position of buyers and sellers slowly becoming alike

IT HAS BEEN A YEAR SINCE THE BULL MARKET CLIMAX

The climax of the economic situation in the residential construction took place exactly a year ago. Obviously, we are not talking about the one measured with the offered price level but with the actual transactional price and the rate of sale of flats. It was the culmination of the three-year long unprecedented bull market in the residential market in Poland. Prices had never grown so quickly before and the sale had not been so easy earlier.

However, everything must end. The mortgage crisis in the USA reminded investors and banks that the price cannot incline to infinity. It was a bucket of cold water thrown over the buyers' hot heads. Rational thinking came back to power – many people became aware of the fact that the price of flats reached an unjustified level. Meanwhile, a gross of developers still believed in the growth in price – new more and more expensive projects, not accepted at such a high price by customers, were still put on the market. It resulted in a dramatic fall in sales, reaching its apogee in December 2007. Certainly, this situation had to force a fall in price. Initially there were no official markdowns but sellers became more and more flexible in price negotiations. Later, developers started enticing with various promotions (a free garage, finishing included in the price, extra car together with the flat, etc.), which was, in fact, a hidden reduction in prices. It brought about a situation where the official price indices had not shown a fall in a price yet, but the market had been collapsing. The most visible effect of that was the growing number of unsold, ready-to-move-in flats observed every month. On the basis of the data from the tabelaofert.pl service, in May redNet Consulting was first to publish two new indices – the average price of flats sold and the average price of the new market offer. It occurred that the discrepancy in some cases exceed even 20%. Simultaneously, the sale was still falling and the market experienced an influx of new projects – usually from the average and upper segment, so the expensive once. Such a situation could not last forever.

In our comment to the data from June we considered who would be first to crack – sellers or buyers. We also noticed that those developers who cut their price openly increased their sales. At the same time, new projects started appearing in the popular segment. July was another month of low sales but the market is showing some changes.

średnia cena mkw. mieszkań wchodzących na rynek	May - July 2008	April - June 2008	The change (%)
Katowice	7,298	7,133	2.32%
Kraków	8,181	8,063	1.47%
Łódź	6,802	6,324	7.56%
Poznań	9,068	9,087	-0.21%
Gdańsk	6,203	6,098	1.72%
Warszawa	9,950	10,445	-4.74%
Wrocław	9,065	9,368	-3.24%
The Warsaw Agglomeration	9,479	9,987	-5.09%
The Tri-City Agglomeration	6,811	6,356	7.16%
The Silesian Agglomeration	7,159	7,005	2.20%
Suma	8,804	8,922	-1.32%

THE AVERAGE PRICE OF FLATS IN NEW DEVELOPER PROJECTS

SOURCE: tabelaofert.pl.

The growth in the price in the Tri-City Agglomeration results from the sale of one prestigious project in Gdynia, an analogous situation refers to Łódź.

THE PRICE OF NEW PROJECTS HAVE FALLEN FOR THE FIRST TIME

Analysing the data from July, it is clear that developers have accepted the fact the market started to be price-driven. In fact, they realised that much earlier since the preparation of a developer project takes time. The period between May and July was the first quarter when the price of flats put up for sale in the new developer projects declined. The average price of new flats put on the market in the past three months in the Warsaw, Silesian, Tri-City and Kraków agglomerations amounted to 8,804 PLN/m² and was by 1.32% lower than in the period of April – June. The biggest fall took place in the Warsaw agglomeration totalling 5.09% (from 9,987 PLN/m² to 9,479 PLN/m²), with the decrease in the city of Warsaw being 4.74% (from 10,445 PLN/m² to 9,950 PLN/m²), and in the Wrocław agglomeration from 9,368 PLN/m² to 9,065 PLN/m² (the fall of 3.24%). The lowest price of flats in new developer projects is available in Gdańsk and amounts to 6,203 PLN/m², as developers introduced projects from the popular segment on the market already in the previous months.

POSITIONS BECOMING ALIKE

Despite the fall in the price of new developer offer, the flats recently put on the market are still more expensive than those which are actually sold. Taking into account seven biggest residential markets in Poland, the average price of flats sold during last quarter amounts to 7,915 PLN/m², therefore the new market offer is still by over 11% higher. Nonetheless, we observe some gradual assimilation of the buyers and sellers' situation since not longer than a month ago this discrepancy was 13.5%.

STILL ATTRACTIVE GDAŃSK, AN IMPROVEMENT IN WARSAW AND WROCLAW

Currently, with new flats put up for sale being cheaper than those presently sold, Gdańsk seems to be the most balanced market. It is a proper situation as new flats which completion is due in two years should be cheaper than those already finished or with their completion date quite close. It is connected with the risk of delays and financing costs. The most difficult situation is in Łódź where the new market offer is by 16.7% more expensive than flats currently sold and in Wrocław where this discrepancy amounts to 16.3%. However, the situation in Wrocław has been improving as last month the difference was as high as 22.3%. The improvement has taken place thanks to a cut in the price by developers and cheaper new market offer. Nonetheless, the highest adjustment of buyers and sellers' situation took place in Warsaw where last month the difference between the price of flats sold and the new market offer was very high – 21.2%. Currently the discrepancy is only 13.5%.

MARKET DEVELOPMENT FORECAST

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 cheaper than the average market price by approximately 8% - this is the corresponding cost of risk of purchasing a flat which is going to be available not earlier than in 1.5 years estimated by redNet Consulting. As the transactional price should not fall, maybe except for Poznań and Katowice, the average price of the market offer is still much too high. A markdown of price in the available projects should be expected especially in Poznań, Wrocław and Kraków. The price in Gdańsk should not fall more.

We forecast that the process of balancing the price and assimilating the buyers and sellers' positions will last until the end of the current year. However, as early as after the holidays the rate and volume of sale should gradually improve.

City	Price of the total offer of flats	Price of flats sold	Price of flats entering the market	How much are new flats more expensive/cheaper than sold units	How much are sold flats more expensive/cheaper than the average market price
Katowice	7,010	7,406	7,298	-1.5%	5.6%
Kraków	8,456	7,776	8,181	5.2%	-8.0%
Łódź	6,009	5,830	6,802	16.7%	-3.0%
Poznań	8,857	8,300	9,068	9.3%	-6.3%
Gdańsk	6,575	6,526	6,203	-5.0%	-0.7%
Warsaw	9,274	8,770	9,950	13.5%	-5.4%
Wrocław	8,519	7,792	9,065	16.3%	-8.5%
Szczecin	6,067	No data	No data	No data	No data
The Warsaw Agglomeration	8,676	8,270	9,479	14.6%	-4.7%
The Tri-City Agglomeration	6,531	6,278	6,811	8.5%	-3.9%
The Silesian Agglomeration	6,153	7,082	7,159	1.1%	15.1%
AVERAGE	8,278	7,915	8,804	11.2%	-4.4%

SOURCE: tabelaofert.pl.

Legend:
 Price of the total offer of flats – the average market price per sqm of all flats in developer projects put up for sale, the data of 31 July 2008
 Price of flats sold – the average price per sqm of flats sold in the last three months, from May to July 2008
 Price of flats entering the market – the average price per sqm of flats in new developer projects put up for sale in the last three months, from May to July 2008

City	How much are new flats more expensive/cheaper than sold units		How much are sold flats more expensive/cheaper than the average market price	
	May - July 2008	April - June 2008	May - July 2008	April - June 2008
Katowice	-1.5%	-3.2%	5.6%	5.3%
Kraków	5.2%	0.2%	-8.0%	-7.7%
Łódź	16.7%	14.7%	-3.0%	-7.3%
Poznań	9.3%	6.6%	-6.3%	-3.3%
Gdańsk	-5.0%	-8.1%	-0.7%	-0.3%
Warsaw	13.5%	21.2%	-5.4%	-6.8%
Wrocław	16.3%	22.3%	-8.5%	-15.1%
The Warsaw Agglomeration	14.6%	22.8%	-4.7%	-5.3%
The Tri-City Agglomeration	8.5%	-0.7%	-3.9%	-1.3%
The Silesian Agglomeration	1.1%	4.5%	15.1%	9.5%
AVERAGE	11.2%	13.5%	-4.4%	-5.0%

THE CHANGE IN THE SITUATION ON THE MOST IMPORTANT MARKETS
 SOURCE: tabelaofert.pl.

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