



Poland's residential market

Report by redNet Consulting and tabelaofert.pl
SITUATION IN THE RESIDENTIAL MARKET
DECEMBER 2010

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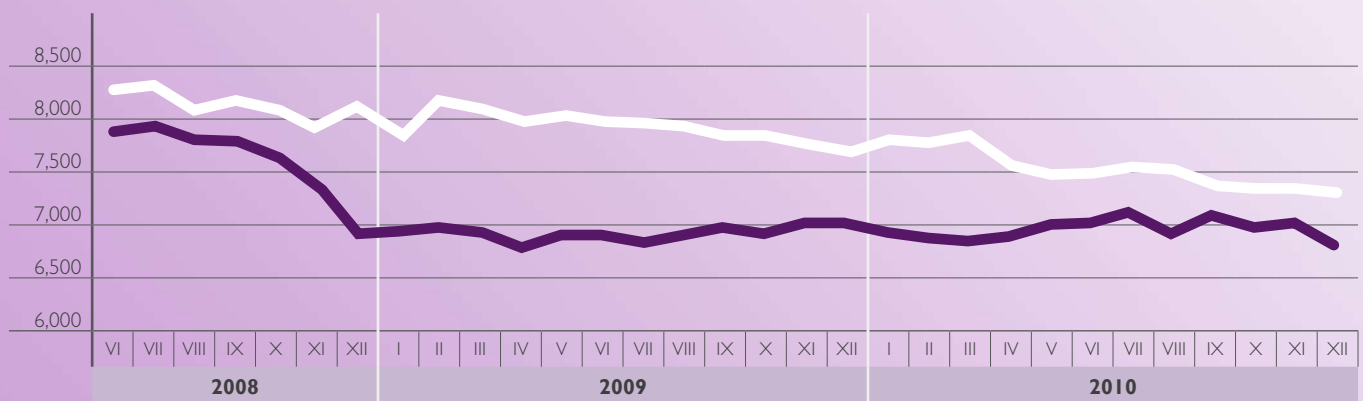
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Residential Market – December 2010

Prices

December was a special month as the comment closing the year 2010 makes us sum up the whole year; the fact is that despite a fall in the average price of flats sold in the last month of the year, the whole 2010 is not indicating a general decline in this respect at all. The sales of flats at about PLN 7,000 per sq m (the average for seven examined cities) has remained unchanged since 2008/2009, so for the past two years; for all this time we have been observing a gradual approach of supply and demand – the average price of flats on offer has been falling actually quite systematically, becoming closer and closer to the price of flats sold. On the other hand, the latter has been oscillating around the said PLN 7,000 per sq m with fluctuations lower than a statistical error. The fall in the rate in December results especially from strong sales of flats in the economy segment.

The average price of flats available on offer in the seven major cities in Poland levelled at the end of December 2010 at PLN 7,325 per sq m, and was by 0.3% lower than the price recorded in November. At the end of December flats were sold at a price 2.8% lower than a month earlier, i.e. at PLN 6,848 per sq m. This change is a result of the volume of supply of the most needed cheap dwellings which has been the biggest since the crisis. Practically, the whole new supply that appeared on the market in the last few quarters is an example of typical economy construction that is created to provide a cheap product to the widest group of buyers. In the fourth quarter of 2010 clearly more flats were launched on the market than disappeared from it – every new investment put up for sale is better and better adjusted to the current market reality. Thanks to that more flats is currently being sold in the middle stages of their realisation that is before their completion.



AVERAGE PRICE OF A FLAT IN SEVEN MAIN CITIES

SOURCE: redNet Consulting on the basis of tabelaofer.pl

Legend:

- Average offer price – the average price per sq m of all flats on offer in real estate development projects put up for sale, as of 29th day of each month
- Average price of flats sold – the average price per sq m of flats sold in the last three months

Sytuacja cenowa w poszczególnych miastach wygląda następująco:

city	Offer price of flats	Price of flats sold	Price of flats sold/offer price of flats
Katowice	5,369	5,261	-2.0%
Kraków	7,468	6,782	-9.2%
Łódź	5,333	5,007	-6.1%
Poznań	6,572	6,385	-2.8%
Gdańsk	6,874	6,250	-9.1%
Warsaw	8,303	8,008	-3.6%
Wrocław	7,139	6,778	-5.1%
Warsaw agglomeration	7,874	7,439	-5.5%
Try-City agglomeration	6,587	6,070	-7.9%
Silesian agglomeration	4,783	4,763	-0.4%
Average for the 7 main cities	7,325	6,848	-6.5%

city	Offer price of flats	Price of flats sold	Change in the offer price of flats Dec/Nov	Change in the price of flats sold Dec/Nov
Katowice	5,369	5,261	0.3%	1.2%
Kraków	7,468	6,782	0.3%	-3.1%
Łódź	5,333	5,007	0.5%	-2.4%
Poznań	6,572	6,385	0.3%	-1.2%
Gdańsk	6,874	6,250	0.7%	-2.7%
Warsaw	8,303	8,008	-1.6%	-1.8%
Wrocław	7,139	6,778	-1.8%	-0.1%
Warsaw agglomeration	7,874	7,439	-0.6%	-2.2%
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Average for the 7 main cities	7,325	6,848	-0.3%	-2.8%

SOURCE: redNet Consulting on the basis of tabelaofert.pl

At the end of the year, interest in only the least expensive flats accumulated. The same actually happened in a few previous months, nonetheless the sales in the last quarter were characterised by exceptionally high share of both the cheaper segment and cities with prices cheaper than in Warsaw – such cities as Poznań, Kraków, Tri-City increased their share in the country's total supply of flats. Inexpensive transactions concluded in these cities have lead to a rise in the discrepancy between the average offer price and the average price of flats sold. At the end of the year the leaders in this respect were: Kraków (-9.2%) and Gdańsk (-9.1%) as the sales in the outskirts of these cities, representing the cheapest flats on offer, increased. The lowest discrepancy between the two indices was recorded in Katowice (-2%) and Poznań (-2.8%).

Interestingly, big commotion not seen for a long time was observed in the offer of a few cities – the average price of the offer in Katowice, Kraków, Łódź, Poznań and Gdańsk was higher than a month earlier. However, the fall in the average price in

Warsaw and Wrocław successfully balanced this tendency and as a result taking into account the all seven cities the average price of flats that were remaining on offer in December fell by 0.3% compared to November. A bigger cut in the price was observed in the case of flats sold (-2.8% in all seven cities), but the cheapest flats were sold in Katowice (-3.1%) and Gdańsk.

Advantageously, the whole residential market in Poland can be assessed as stable, linked to its real value and long-lasting. After the time of bull market when people were taking decisions being carried out by euphoria, via the whole time of bear market when purchases were held as buyers feared about the future, we can now say that both demand and supply have learnt their lesson and are keeping the market in a constant continuity. Equally buyers supported by every-day easier access to finance and sellers, despite constantly changing buyers' needs, take up well-thought-out and weighted decisions creating stable bases for the Polish residential market.

Sales

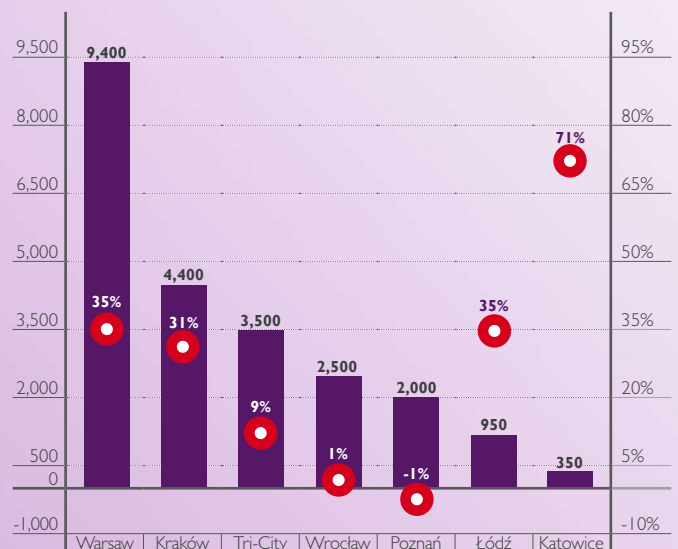
In 2010 the primary residential market in the biggest Polish cities was regaining its liquidity lost as a result of the crisis. Initial data show that in the whole 2010 development companies sold over 23 thousand new flats net, i.e. after taking into account clients' resignations from the purchased units, while in 2009 the net number of transactions totalled 18.9 thousand (a rise of about 22% by the year). Among the largest Polish cities the doubtless leader was Warsaw where in 2010 about 9.4 thousand new flats were sold. The second city exceptional as for the number of transactions was Kraków where development companies sold over 4.4 thousand dwellings. Further on the list we can find Tri-City, Wrocław and Poznań where about 3.5 thousand, 2.5 thousand and 2 thousand new flats were sold, respectively. Much fewer buyers purchased residential premises in Łódź and Katowice (about 950 and 350).

The sales in the seven main cities were higher in 2010 than in 2009 by about 22%. The scale of changes was however very diversified depending on the city. The biggest rise in the price was recorded in Katowice (of about 71%) followed by Łódź (a rise of approx. 35%), which, nevertheless, was the result of a very few transactions concluded in these cities in 2009. The change of 35% and 31% in Warsaw and Kraków proved that these two markets had managed to recover after the crisis quickest as a rise was recorded there despite of the fact that in 2009 a lot of flats had been sold as well. Regarding Wrocław and Poznań, we can say that in these two places no vivid changes took place as for the volume of sales compared to the year 2009. Apparently, the situation in Tri-City seems to be much better, as this city is the third market in terms of the number of transactions concluded when we take into account the year 2010. Also in this case, the rise in the number of transaction was substantial, reaching 9% compared to the year 2009.

The rise in the sales of flats made development companies start new residential investments, the investments which still had been held in 2009. Many of these projects were redesigned as a result of the crisis thanks to which the offer that finally was launched on the market was adjusted to buyers' expectations better, both in respect of the price and the composition of flats offered. Development companies' investment revival was especially visible in autumn 2010 when the market was flooded with a lot more flats

than it could absorb at the same time. Thanks to that, the available offer became wider and much more diversified in the scope of its composition.

The biggest share of sales in 2010 was made up by flats from the economy segment representing inexpensive flats in the case of which the price was the major factor taken into account by buyers. Worth stressing is the fact that in the group of flats at a lower standard it was essential whether a given functionality of a flat (bedsit, one-bedroom unit or two-bedroom flat) was offered on a relatively small floor area, as this had a direct influence on the total price of a dwelling. Decidedly, buyers were much more willing to buy a flat in the stage of a so-called 'hole in the ground' last year than in 2009. This refers mainly to the offer of reputed development companies which designed smaller and more compact flats at an attractive price in their new offers.



NUMBER OF FLATS SOLD IN INDIVIDUAL POLISH CITIES IN 2010, TOGETHER WITH THE CHANGE IN THE VOLUME OF SALES COMPARED TO 2009

SOURCE: redNet Consulting

Legend:

- Net volume of transactions [left axis] in thou
- y/y change [right axis]

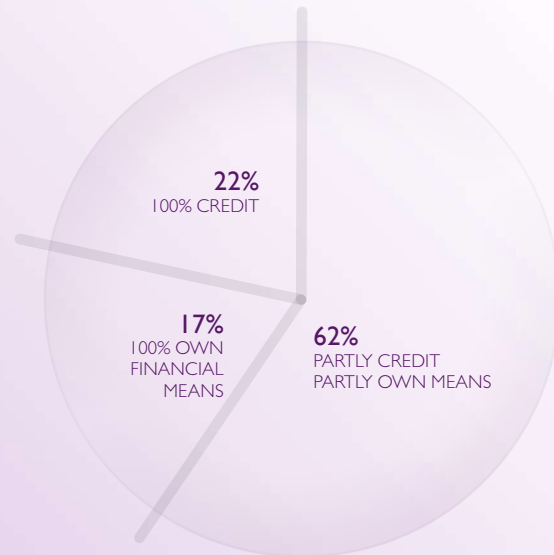
Customer preferences for flats

Financing the purchase

The purchase of real estate is a very capital-intensive investment. Therefore many buyers need to use outer financing when buying a flat – such financing usually takes the form of a mortgage credit divided into instalments spread out over a few dozen years. In Warsaw as many as 83% of prospects plan to take advantage of such a financial solutions when buying their flat, with 21% not having any savings that would allow them to cover at least a part of the cost of the purchase from own means. Only 17% of respondents declared that they planned to pay the total sum from the financial surplus they possess.

Reason behind buying

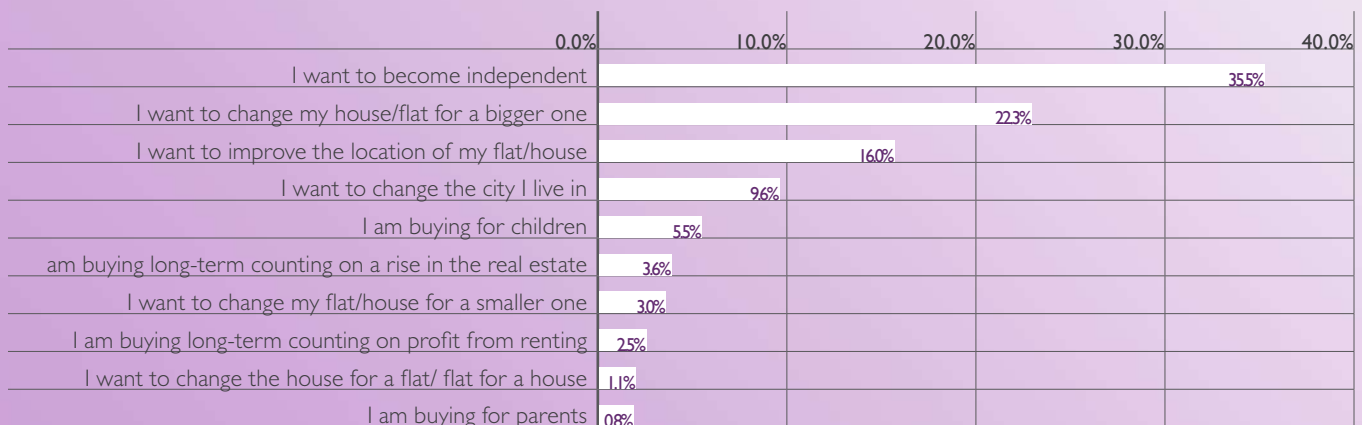
The basic reason for buying a new flat in Warsaw is the willingness to become independent (35.5%), which is a consequence of a large share of respondents not having their own house or flat yet. Among people who already have some real estate, the most often mentioned reason for the purchase is the urge to change the present accommodation for a bigger one (22.3%) and to improve the location of their flat (16%). On the other



MANNER OF FINANCING REAL ESTATE PURCHASE

SOURCE: redNet Consulting

hand, 9.6% are not residents of the capital yet and intend to move to Warsaw. Respondents planning to buy real estate for their children or parents constitute a small percentage – 5.5% and 0.8%, respectively. There is still a group of prospects, yet quite small, who treat the purchase of real estate as an investment counting on a rise in the value of the real estate or being interested in renting it out (in total 5.8%).



REASON FOR BUYING A FLAT

SOURCE: redNet Consulting

Example analysis that we can prepare for you:

Market Monitoring

This analysis provides useful knowledge about the current and forecast market situation. Thanks to the data on the number of new flats on offer and flats already sold, you will be easily able to notice market gaps and will possess reliable knowledge about the market absorption capacity. Market monitoring is currently run for Warsaw, Kraków, Łódź, Tri-City, Poznań, Wrocław, Katowice, Szczecin and Olsztyn, in every city being divided into districts, investments and standards of flats (redNet Consulting's original division).

Competition Review

This review is an extremely helpful and practical study when drawing up a project. It will allow you to find out about the exact number of flats in competitive investments and their prices in an easy and clear way. This review will let you become familiarised with the market and assess the position your investment has compared to direct competitors.

Customer preference analysis

This review will help you get to know your target customer thanks to the fact that it clearly shows who the buyers are and what kind of flats they are looking for. As a result, your offer will be possibly most adapted to customer expectations.

Disintegration of prices of flats

This review will let us assess for you the most adequate price of flats sold by you. Thanks to this analysis flats will be sold at possibly highest prices with a satisfactory rate of sale; this will let you maximise your profits.

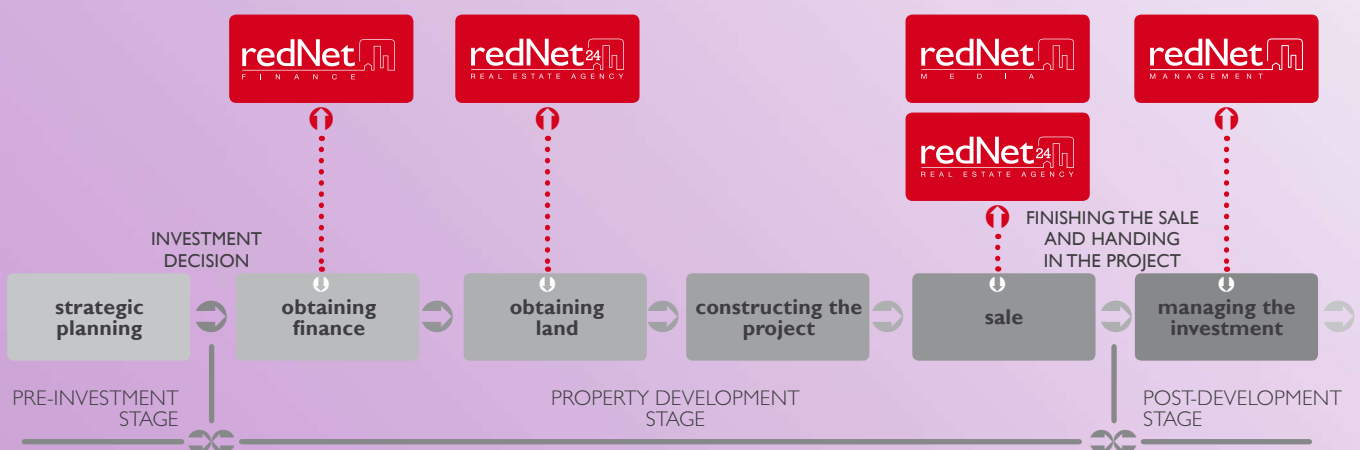
Cooperation with architects

This service encompasses providing architects with guidelines relating to architectural and spatial solutions as well as layouts preferred by buyers. Thanks to our knowledge you will possess a successful project which, thanks to its adjustment to market needs, will be characterised by a high rate of sale.

Business plans

It is an essential study drawn up in order to obtain finance. We are specialised and experienced in creating business plans for the property development industry. Analyses written by us take into account all conditions that the real estate market is characterised by.

Thanks to the fact that we operate within the redNet Property Group, we are the only entity in Poland that is able to participate in all stages of the investment process, starting from planning the investment, obtaining finance and land, via selling the project and finally ending with managing the real estate. Therefore, only we can provide you with comprehensive service of the investment under realisation.



market review	opinion on the project	price disintegration	managing portfolio
market development forecast	feasibility study	marketing strategy development	
opinion on location	business plan		