



Poland's residential market

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

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Residential Market November 2010

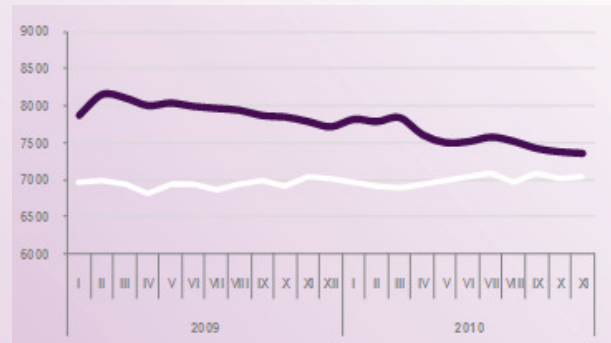
Having life of its own similarly to the present weather, the residential market less and less frequently obeys the rules which we have already accustomed to. Being at quite a satisfactory level in all analysed cities this autumn, the sale of flats was the highest in the month of residential fairs, i.e. in October. September and November occurred to be much slower months for selling.

When divided into individual cities, the November residential market is very diversified as for its dynamics. Warsaw is worth special attention, being characterised by constantly high liquidity. This feature is making this city every day more and more distinct compared to the other analysed agglomerations. As for the capital, the proportions have been differently laid out – the strongest month out of the three was September. Nonetheless, in all months relatively high sales are accompanied by wide offer. This is even strengthened by the fact that every month supply is being enriched by new projects launched on the market, especially considering the last two quarters.

The average price of flats on offer in the seven main Polish cities levelled at the end of November 2010 at PLN 7,347 per sq m, and was by 0.3% lower than the price recorded in October. At the same time the price of flats sold was 0.2% higher than a month earlier, reaching in October PLN 7,044 per sq m. The change in the price of flats sold that can be observed in the chart above still confirms its long-term stability, fluctuating mainly around PLN 7,000 per sq m. Of course, this is an average for all seven cities. Nonetheless, the fact that this index has been at a relatively stable level for two years now is very interesting and says a lot about the market. Moreover, we can still see further approach of the offer price of flats and the price of flats sold – another record has been broken as the discrepancy in November is only 4.1%. This means that on average buyers buy flats that are only 4.1% cheaper than those offered by developers. The chart clearly indicates that this is a result of a much better adjustment of supply, which simply means that flats at a lower price per square metre are being offered.

Both monthly and quarterly the list of cities that can be deemed to be the most balanced markets changes. In October it was Łódź, in November it was Poznań. Nevertheless, we should look carefully from a holistic point of view at the whole situation which has not been so balanced before.

AVERAGE PRICE OF A FLAT IN SEVEN MAIN CITIES



Source: redNet Consulting on the base of data tabelaofert.pl

LEGEND:

— Average offer price – the average price per sqm of all flats on offer in developer projects put up for sale, as of 29th day of each month

— Average price of flats sold – the average price per sqm of flats sold in the last three months

Not so long ago the difference between the price buyers wanted to pay and the one that development companies wanted to receive was double-digit in some cities, e.g. in the Tri-City or Wrocław it often exceeded 15%.

The discrepancy between demand and supply expectations was huge. Of course this was a direct result of a sudden change in the economic situation – the change was so unexpected that the development construction market could not react to it quickly as a construction process in this case is very long – starting with preparing architectural design, obtaining all permits, through erection and ending with the acceptance of flats by final buyers it often takes even more than three years. In the past three years the bull market has turned into an economic crisis and the planned flats had to be completed pursuant to the project and other provisions. That was the reason why development companies offered flats which, generally speaking, were expensive and large at a standard significantly exceeding current needs.

The period of bad economic situation was reflected in buyers buying only inexpensive dwellings – both in terms of the price per square metre and the total price. The latter was lowered by planning flats with maximal functionality obtained on possibly the smallest floorage. This is why nowadays a two-bedroom flat has a floorage of 55 sq m, not 85 sq m.

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The price situation in individual cities is as follows:

City	Offer price of flats	Price of flats sold	Price of flats sold/offer price of flats
Katowice	5 350	5 200	-2,8%
Kraków	7448	7 002	-6,0%
Łódź	5 305	5 128	-3,3%
Poznań	6 556	6 461	-1,4%
Gdańsk	6 823	6 427	-5,8%
Warszawa	8 440	8 153	-3,4%
Wrocław	7 267	6 787	-6,6%
Warsaw Agglomeration	7 920	7 606	-4,0%
Tri-City Agglomeration	6 674	6 492	-2,7%
Silesian Agglomeration	4 766	4 706	-1,3%
The average for 7 agglomerations	7 347	7 044	-4,1%

As a result of launching newer and cheaper residential projects, development companies' offer has become very close to customer expectations. Only Wrocław, Gdańsk and Kraków are cities where demand and supply differs by more than 5%. However, we must remember that not so long ago it was 15% and such a jump does not happen overnight. The biggest advantage is the fact that the market is still heading towards balancing – as a consequence it is much easier to find a product characterised by parameters that a buyers looks for.

As for the change in the price within time, the general conclusion is as follows: development companies have been adjusting to customer expectations and buyers have been accepting the settled price level, and sometimes they even have made an effort to meet sellers' wishes by realising transactions at a higher price.

The fall in the offer price of flats is a result of launching a lot of new residential investments. A vast majority of projects the sale of which is being started now are investments from the economy segment or undertakings which offer products at a low price in a given location. First time such a situation could be observed at the end of March and beginning of April 2010 when development companies started to launch less expensive flats in large number – these were units prepared for the new economic conditions.

City	Change in the offer price of flats November/ October	Change in the price of flats sold November/ October
Katowice	0,0%	0,2%
Kraków	-0,2%	1,9%
Łódź	-0,6%	-2,1%
Poznań	-2,0%	-0,6%
Gdańsk	0,0%	3,2%
Warszawa	-0,4%	0,3%
Wrocław	1,7%	-2,3%
Warsaw Agglomeration	-1,3%	0,5%
Tri-City Agglomeration	2,1%	3,0%
Silesian Agglomeration	0,3%	0,2%
The average for 7 agglomerations	-0,3%	0,2%

In the chart, we can observe a plunge in the average offer price. The average price of flats on offer rose only in Wrocław (+1.7%) due to especially strong sales of the cheapest flats. In other cities the price either remained unchanged compared to October (Katowice, Gdańsk) or registered a slight fall (-0.6% in Łódź, -0.4% in Warsaw, -0.2% in Kraków).

On the other hand, the average price of flats sold is slightly more diversified as it comprises both falls (-0.6% in Poznań, -2.1% in Łódź, -2.3% in Wrocław) and acceptance of prices higher, for example, by 0.2% in Katowice, 0.3% in Warsaw, 1.9% in Kraków and as much as 3.2% in Gdańsk.

There is only one month left to the end of 2010 – December; after a very good October and not bad November, considering wide and diversified offer, we can be expecting quite an advantageous end of the year as well. Clearly, clients and development companies have been able to find a common reference point – at least from the perspective of an average transaction, average price and general impression of the market. There is no denying that flats are selling, a good project finds a buyer on today's market and the price is not an abyss between demand and supply any more.