



Poland's residential market

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

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Residential Market August 2010

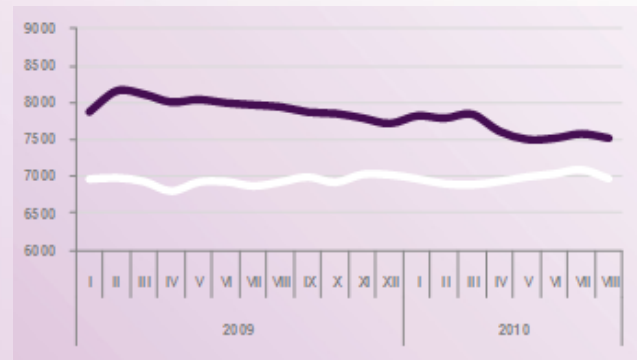
The end of August is the moment between summer holidays and the new school year, coming back to work and daily routine. This big come-back also relates to the residential market on which the autumn season is the best selling period of the year. Meanwhile, the second month of holidays brought about some turmoil in indicators illustrating the market in respect of the price. In fact, in contrary to the trend that had been present for a few months, the average price of flats sold which is a price index that reflects the market reality best fell. An over one-and-a-half-percent decline results from the fact that buyers focused mainly on cheaper flats – the average price of flats sold in Poland reaching 6,975 zł/m² is a return to the situation from this year's May.

When observing transactions concluded on the market last month, we can notice that flats available in the most price-attractive investments dominate in them – both in respect of the price per square metre and the total price of a flat. Additionally, the majority of flats chosen by buyers are those characterised by the lowest price in a given investment. It is worth stressing that August occurred to be a much better month in terms of sales than the previous one. Development companies' selling offices explain this situation in various ways – starting with constant heat wave in July finishing with the standard rule saying that one of summer months is always clearly more successful than the other. This phenomenon was also strengthened by stronger competition between banks on the mortgage market that made finalising the purchase of real estate much easier.

The average price of flats available on offer in the seven major Polish cities amounted to 7,512 zł/m² at the end of August and was 0.8% lower than at the end of July 2010. Quite a large number of investments put up for sale accompanied by a clearly lower price compared to the up-to-date offer influenced the indicators much more evidently this time.

Despite this, the discrepancy between the average price of flats sold and the average offer price is still kept on a relatively low level of -7.1%. The difference between price indices is bigger than in previous months in spite of the fact that an unquestionable majority of new investments which are being launched on the market are cheap projects from the economy segment. Therefore, the supply is still trying to meet the demand and wants to adjust to demand. This phenomenon will impact on further decline in prices, or at least keeping the present price level of the average offer. In the meantime the price of flats sold probably will be still fluctuating around 7,000 zł/m² in the scope of the whole country.

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

Only the expected acceleration of the rate of sale during the autumn shopping spree may facilitate a price rise. There has been a constant rise since this year's April. Another important symptom has been a clear increase above a level of 7,000 zł/m² for the first time since the crisis in 2008.

When comparing the average price of flats which were sold with the average offer price in individual cities, it can be observed that a more visible price disproportion is kept in Gdańsk and the whole Tricity agglomeration. Here flats on average 15% less expensive than those available on offer are being sold. This partly results from the Tricity market specificity where a vast part of the offer is made up by expensive flats and luxury suites located in the seaside, while the majority of transactions relate to the cheaper dwellings in the outskirts of the cities (mainly in Chelm and Gdańsk Południe, a district). A two-digit difference between the price level of flats sold and the price of the whole offer available on the market is also present in Kraków where over 12% cheaper flats are bought than those actually available on the market. When looking at residential markets in other cities, the price indices seem to be more levelled: in Wrocław about 9% less expensive flats than the market average are sold, in Warsaw and Poznań the discrepancy amounts to about 6%. Even lower disproportion was registered in August in Łódź (about 4%) and Katowice (nearly 3%) – however, these are markets characterised by the lowest liquidity of sales, where development companies are forced to adjust their offer to buyers expectations more in order to be able to attain satisfactory rate of sales.

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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	5422	5265	-2,9%
Kraków	7712	6765	-12,3%
Łódź	5411	5187	-4,1%
Poznań	6611	6216	-6,0%
Gdańsk	7116	6048	-15,0%
Warszawa	8577	8076	-5,8%
Wrocław	7636	6956	-8,9%
Warsaw Agglomeration	8076	7672	-5,0%
Tri-City Agglomeration	6800	5700	-16,2%
Silesian Agglomeration	4952	4983	0,6%
The average for 7 agglomerations	7512	6975	-7,1%

City	Change in the offer price of flats August/July	Change in the price of flats sold August/July
Katowice	-0,3%	0,4%
Kraków	0,6%	0,0%
Łódź	-0,3%	-0,1%
Poznań	-0,5%	-0,3%
Gdańsk	-2,8%	-1,6%
Warszawa	-0,7%	-1,2%
Wrocław	-9,3%	-2,2%
Warsaw Agglomeration	-0,4%	-0,9%
Tri-City Agglomeration	-2,7%	-2,5%
Silesian Agglomeration	-1,0%	0,0%
The average for 7 agglomerations	-0,8%	-1,7%

In August practically on every market (except for Kraków) a fall in the price of the available offer was observed. Such a situation is an outcome of new residential projects very often priced below market average offer price that are being more frequently launched by development companies. This phenomenon was especially visible in Wrocław where the sale of flats from four large investments where the prices were lower than those of flats contemporarily available on the market was started. This resulted in a fall in the offer price rate of about 9%. On other markets the change in the average offer price was much smaller (below 1%), only in Gdańsk and the whole Tri-City agglomeration it reached nearly 3%. The only city where a rise in the offer price index of flats was registered in August was Kraków, but also here the change was slight (of 0.6%).

In relation to the price of flats sold in the scope of the whole country, we observed a fall in this rate of about 1.7%. Considering individual markets, the highest fall in the price of flats sold was noticed only in Wrocław and the Tri-City agglomeration. In Gdańsk last year flats 1.6% cheaper than in the preceding month were sold, in Warsaw the discrepancy reached 1.2%. In the case of other cities the change of the price of flats sold compared to July did not exceed 1%.

In Kraków, Łódź and the Silesian agglomeration the price index of flats sold did not practically change and in Katowice its slight increase was registered (of 0.4%). The forthcoming months are to bring about the expected revival of sales. Additionally it will be supported by the process of more numerous new investments being launched on the market – these investments are planned to be put up for sale in September and October. The wide offer of both completed flats and those in an early realisation stage gives potential buyers wider choice. This is especially important in relation to the specificity of projects put up for sale after the crisis.

Development companies are currently beginning more and more cheaper projects recognised as the economy segment offering smaller flats that are being looked for by a large group of buyers. The composition of flats adjusted to market expectations in these investments together with their attractive price make it possible for a growing number of potential buyers accept a higher risk connected with buying a flat in the stage of so called “a hole in the ground” and agree on waiting a long time for the completion of their dwelling on condition that the chosen flat and its final price are more attractive than the offer in more advanced investments (in terms of their realisation).