



Poland's residential market

Report by redNet Consulting and tabelaofert.pl
SITUATION IN THE RESIDENTIAL MARKET
FEBRUARY 2011

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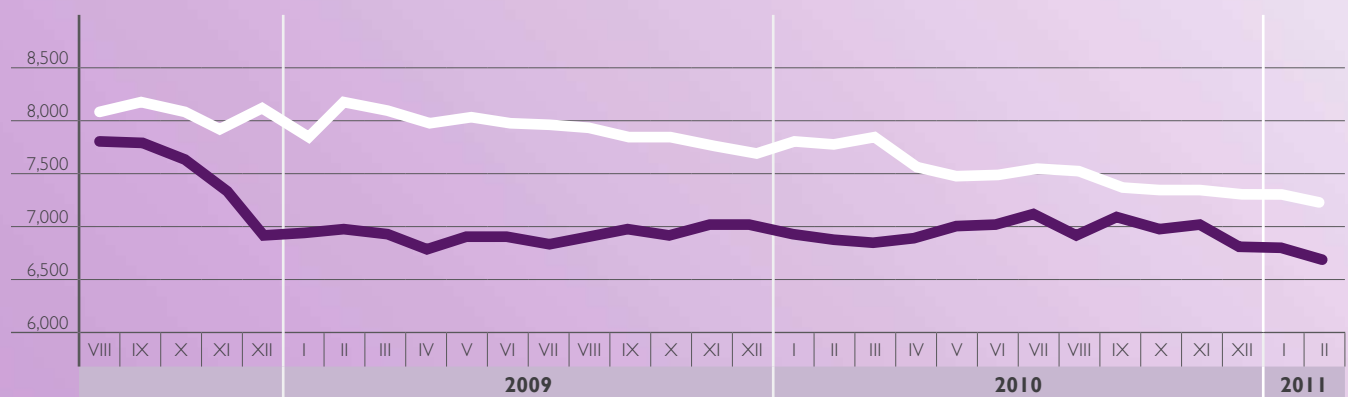
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Residential Market – FEBRUARY 2011

Despite being the shortest month in the year, February recorded a rise in the number of flats sold in the majority of the biggest cities in Poland, compared with January 2011. Truly, the selling results were not as high as in individual months of the fourth quarter of 2010, but the usual fall in the volume of transactions was not registered, as it was, for example, last year. Moreover, in spite of the disadvantageous weather conditions, the offer of development companies was enriched with new investments, mainly in the economy segment. These projects comprise flats that are very well adjusted to buyers' expectations. In their new projects, most development companies offer flats with a specific number of rooms planned on a smaller floor area. Besides this, the new dwellings are very attractive as for both their price per square metre and their total price. Thanks to that, the latest projects are very popular with buyers, even if the construction work has not left the stage of, so called, "hole in the ground" yet. Not only does such a situation lead to a fall in the average price of the offer of flats, but, owing to a high share of transactions in the newest projects, also in the average price of flats sold.

The average price of flats on offer in the seven main cities in Poland at the end of February 2011 reached PLN 7.224 per sqm., and was 1.3% lower than the corresponding price recorded at the end of January 2011. Regarding the year by year change, the fall in prices of the offer available on the residential market in the biggest cities was much more evident (of about 7%). Also, the price rate relating to flats sold in February was slightly lower compared with January 2011 (PLN 6,701 – a fall of 2.3%). However, in the case of flats sold, the price rate was not so much different compared with the previous year – the year by year decline reached in this case 3%. The discrepancy between the average price of flats sold and the price of those available on offer in the main Polish cities at the end of February 2011 reached 7%, which should be assessed as a rise in the price disproportion in relation to January 2011. Nonetheless, the price scissors are relatively small in comparison with the price situation in 2009 and at the beginning of 2010 when flats were sold at a price on average a dozen or so percent higher than the price of flats remaining on offer.



AVERAGE PRICE OF FLAT IN SEVEN MAIN CITIES
SOURCE: redNet Consulting on the basis of tabelaofert.pl

Legend:

- **Average offer price** – the average price per sqm. 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 sqm. of flats sold in the last three months

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Price level in individual cities has been presented below:

city	Offer price of flats	Price of flats sold	Price of flats sold/offer price of flats
Katowice	5,304	5,215	-1.7%
Kraków	7,114	6,755	-5.0%
Łódź	5,336	4,893	-8.3%
Poznań	6,557	6,215	-5.2%
Gdańsk	6,821	5,842	-14.4%
Warsaw	8,400	7,768	-7.5%
Wrocław	7,031	6,746	-4.1%
Warsaw agglomeration	7,762	7,288	-6.1%
Tri-City agglomeration	6,504	5,507	-15.3%
Silesian agglomeration	5,102	4,825	-5.4%
Average for the 7 main cities	7,224	6,701	-7.2%

city	Offer price of flats	Price of flats sold	Change in the offer price of flats Feb/Jan	Change in the price of flats sold Feb/Jan
Katowice	5,304	5,215	0.6%	-1.7%
Kraków	7,114	6,755	-4.3%	-2.1%
Łódź	5,336	4,893	0.4%	-0.6%
Poznań	6,557	6,215	-1.2%	-0.1%
Gdańsk	6,821	5,842	-0.5%	-5.7%
Warsaw	8,400	7,768	0.3%	-2.0%
Wrocław	7,031	6,746	-1.2%	-0.3%
Warsaw agglomeration	7,762	7,288	-1.8%	-2.3%
Tri-City agglomeration	6,504	5,507	1.9%	-6.5%
Silesian agglomeration	5,102	4,825	2.1%	3.4%
Average for the 7 main cities	7,224	6,701	-1.3%	-2.3%

SOURCE: redNet Consulting on the basis of tabelaufert.pl

In February, both of the price rates recorded minimal levels, but the fall in the index of price sold was much more distinctive, as it was on the same level of about PLN 7,000 per sqm. practically for 24 months (December 2008 – November 2010), and at present its value is slightly above PLN 6,700 per sqm. A stronger decline in the average price of flats sold compared with those still on offer resulted in a rise in the discrepancy between these two indices. Especially high difference in prices was seen in Gdańsk and the whole Tri-City Agglomeration last month. Flats sold there were, respectively, 14.4% and 15.3% higher than flats on offer. Such a situation derives from a very large volume of transactions recorded with the participation of the cheapest investments and locations in the Tri-City (for example, Chełm and Gdańsk Południe in Gdańsk; Chwarzno-Wiczlin in Gdynia; and suburban towns and villages surrounding the Tri-City.) On the other hand, the lowest discrepancy in prices was recorded in Katowice (-1.7%) and Wrocław (-4.1%). In the rest of the cities, the price difference was very close to the average for the seven agglomerations and varied from -8% to -5%. Such disproportions between indices show that the price criterion is still the most important factor when choosing

a flat and a vast part of buyers are ready to accept a long period of waiting for a flat on the condition that its total price is more attractive than the price of offers in a more advanced stage.

Compared with January 2011, the fall in the average price was visible in the majority of the analysed cities. Nonetheless, in the area of Katowice, Łódź and Warsaw, the price indices slightly rose (by 0.3% to 0.6%). Similarly, in the Tri-City Agglomeration and the Silesian Agglomeration the price of flats remaining on offer inclined, but the reasons for this phenomenon should be seen in an increase in the share of flats offered in the main cities in these agglomerations compared with the number of flats in suburban towns and villages, not in a rise in the price. On the other hand, the Warsaw Agglomeration recorded a different situation – a rise in the offer in the city suburbs, thanks to which the price rate for the whole agglomeration fell by 1.8%. In the case of other cities, a decline in the price of flats remaining on the market was recorded; the biggest was observed in Kraków, where the offer price went down compared with January by over 4%.

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Nonetheless, in relation to the average price of flats sold, its fall compared with January 2011 was visible on every market, except for the Silesian Agglomeration, which resulted from a high share of transactions in Katowice, where the flats on offer are more expensive than the average in this agglomeration. The highest reduction in price indices of flats sold was observed in Gdańsk and the whole Tri-City Agglomeration (5.7% and 6.5%, respectively.) On the other hand, the rest of the markets showed rather symbolic falls, reaching from -2.3% in the Warsaw Agglomeration to -0.1% in Poznań.

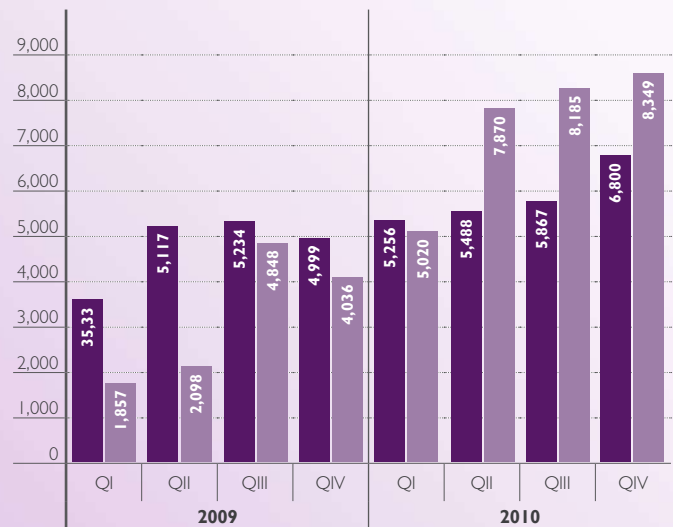
The advantageous sales results are largely thanks to the fact that buyers did not practically feel the rise in VAT, the burden of which was mainly carried by development companies. In addition, in the conditions of uncertainty regarding the moment of launching changes in the "Rodzina na swoim" government programme, some buyers bring the purchase decisions forward fearing that in the next few months, due to the planned lowering of the price limit in the programme, the flat they have chosen may not qualify for the governmental subsidies to the interest on home loan.

A large share of transactions at a lower offer price is good information for all market participants – thanks to that development companies can be sure about liquidity of sales, and buyers can decide to buy flats at a more attractive price than in the past.

A few words about INVESTMENTS CURRENTLY LAUNCHED FOR SALE

Since the second quarter of 2010 we have been observing a strong investment revival among development companies in relation to the number of investments started by them and the volume of flats launched for sale in the seven main cities in Poland (Warsaw, Kraków, Łódź, Trójmiasto, Poznań, Wrocław and Katowice.) After the period when they practically held starting new residential projects in the first half of 2009, which was also a time of very few new investments appearing on the market, the second quarter of 2010 commenced a new tendency: since that time the number of flats put up for sale has been largely exceeding the number of flats sold on the market.

In the last quarter of 2010 over 22% more new flats were launched on the market than were sold on the primary market in the biggest Polish cities at that time. Even bigger disproportion was noticeable in the second and third quarter of 2010.



FLATS SOLD AND FLATS LAUNCHED ON THE MARKET
IN THE SEVEN MAIN CITIES

SOURCE: redNet Consulting

Legend:

- FLATS SOLD
- FLATS LAUNCHED ON THE MARKET

Owing to such a strong investment revival, the residential offer on the primary market increased from about 34 thousand flats at the end of the first quarter of 2010 to over 41 thousand at the end of 2010. Similarly, the first months of 2011, despite disadvantageous weather conditions, brought about the first wave of new residential development investments. The majority of new flats were naturally launched on the Warsaw market, but development companies operating in Kraków and Wrocław were also very active market participants as for starting new investments.

Interestingly, a vast majority of investments started in the past few months have been projects from the economy segment, usually much cheaper than the average price of the whole offer available in each of the cities. Thanks to that buyers of flats are starting to have bigger and bigger choice, and the new residential offer is every day better adjusted to their expectations and financial possibilities.

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.

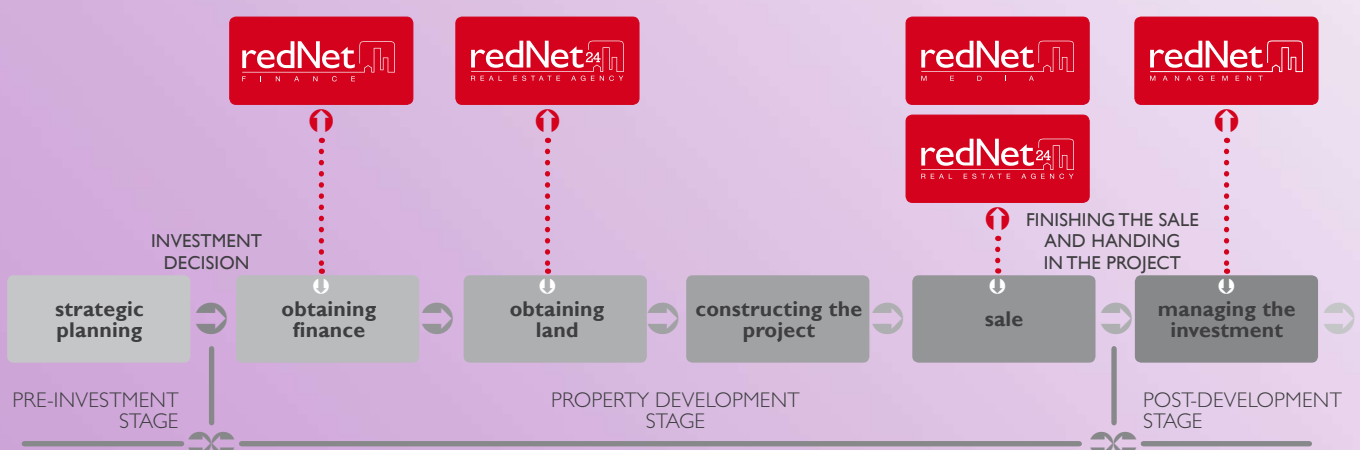
Cooperation with architects

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		