Poland's residential market

Report by redNet Consulting and tabelaofert.pl

SITUATION IN THE RESIDENTIAL MARKET

MARCH 2011

redNet Property Group Sp. z o.o.
Wiśniowy Business Park, Building C
ul. 1-go Sierpnia 6a, 02-134 Warszawa
tel.: +48 22 318 72 00
fax: +48 22 318 72 10
info@rednetproperty.com
www.rednetproperty.com

KRS: District Court for Warsaw,
XIII Commercial Division
KRS: 0000043992
NIP: 632-17-99-435
Company stock: 57 500 PLN

President: Robert Chojnacki
Vice-president: Michał Kosyrz

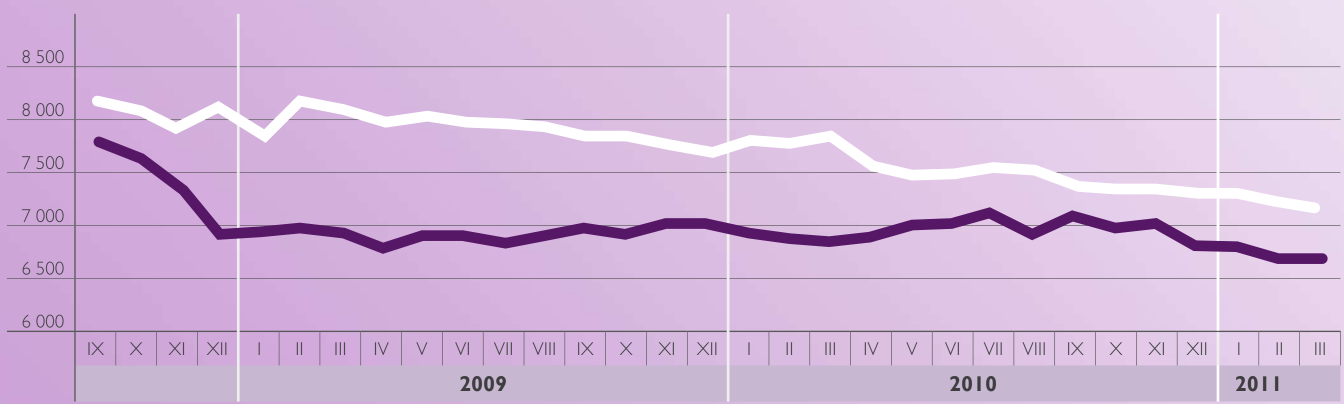
Residential Market – **MARCH 2011**

As usually, the first quarter of the year passed very quickly. Although three months are a very short period in terms of the real estate market, it is sufficient to provide us with some signals about the economic situation if the market is systematically observed. The present market reality is not easy to be clearly interpreted. In fact, this is the case at any time apart from the bull and bear market periods. Thus, a problem arises in answering the question about the market climate when flats are selling well (e.g. in Warsaw nearly 1,000 dwellings sold in March) and simultaneously their price is falling.

Stable Situation on the Market

Currently clients are willing to buy new dwellings. This is facilitated by the fact that the development companies' offer is well adjusted to buyers' expectations. There are plenty of economy-standard projects where the composition of flats is based on dwellings with one-bedroom and small two-bedroom units. Besides this, pursuant to clients' preferences, the metric area of flats on offer is not too large and the finish of common areas is quite modest. More importantly, both the price of flats per square metre and the total price of flats are quite well-adjusted to clients' financial possibilities.

Worth noting is the growing confidence of buyers of flats placed in development companies. Nobody is now surprised when a vast share of flats in an investment is sold in the stage of so called "hole in the ground". With an adequate price and composition of flats, a lot of investments are characterised by a high rate of sale of dwellings. In addition, should the location of a project be attractive and a development company be recognised on the local market, the chance that the project will be successful increases. In March, along with the appearance of adequate weather conditions, a lot of new projects were launched on the market. These were very often medium-scale investments or phases of large housing estates. Cosy projects planned in central districts of cities, very often in the form of so-called 'infills', are still waiting to be completed. This results in further rise in the importance of large, multi-phase projects realised in the economy standard. Such a situation has translated into further expansion of such areas as: Chełm in Gdańsk and Krzyki and Fabryczna in Wrocław. Accompanied with adequate development of road and commercial infrastructure, similarly to Wilanów in Warsaw, the said areas are becoming more and more attractive for people looking for flats. The advantageous market climate is best proved by, for example, nearly a thousand



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 flats sold on the primary market in Warsaw in this year's March. At the same time, the realisation of the less attractive projects is still being held due to high supply of flats on the Warsaw market reaching nearly 17 thousand residential units. The beginning of spring on the primary real estate market was successful. Also, the upcoming months should be expected to show high interest in new projects. Simultaneously, owing to the high supply of new residential units, some of the planned investments are not going to be launched on the market for the time being.

The average price of flats on offer in the seven main cities in Poland at the end of March 2011 reached PLN 7,143 per sqm., and was nearly 1.1% higher than the price of flats recorded at the end of February 2011. The average price of the offer has been systematically falling since the beginning of 2009, and its present value is an outcome of one unchangeable factor – i.e. launching more and more inexpensive flats constructed in the economy standard on the market. On the other hand, the average price of flats sold stayed in March at the February's level. Since the beginning of the year, flats have been bought at a lower and lower price – in February and March the selling price fell down to about PLN 6,000 per sqm. The discrepancy between indices under consideration has also gone down a little – at the end of March it was 6.2%.

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	**5,082**	**5,231**	**2.9%**
Kraków	**6,991**	**6,725**	**-3.8%**
Łódź	**5,314**	**5,012**	**-5.7%**
Poznań	**6,571**	**6,114**	**-7.0%**
Gdańsk	**6,697**	**5,835**	**-12.9%**
Warsaw	**8,301**	**7,861**	**-5.3%**
Wrocław	**7,041**	**6,576**	**-6.6%**
Warsaw agglomeration	**7,673**	**7,349**	**-4.2%**
Try-City agglomeration	**6,377**	**5,507**	**-13.6%**
Silesian agglomeration	**4,973**	**4,924**	**-1.0%**
Average for the 7 main cities	**7,143**	**6,702**	**-6.2%**

SOURCE: redNet Consulting on the basis of tabelaofert.pl

city	Offer price of flats	Price of flats sold	Change in the offer price of flats **March/Feb**	Change in the price of flats sold **March/Feb**
Katowice	**5,082**	**5,231**	**-4.2%**	**0.3%**
Kraków	**6,991**	**6,725**	**-1.7%**	**-0.4%**
Łódź	**5,314**	**5,012**	**-0.4%**	**2.4%**
Poznań	**6,571**	**6,114**	**0.2%**	**-1.6%**
Gdańsk	**6,697**	**5,835**	**-1.8%**	**-0.1%**
Warsaw	**8,301**	**7,861**	**-1.2%**	**1.2%**
Wrocław	**7,041**	**6,576**	**0.1%**	**-2.5%**
Warsaw agglomeration	**7,673**	**7,349**	**-1.1%**	**0.8%**
Try-City agglomeration	**6,377**	**5,507**	**-2.0%**	**0.0%**
Silesian agglomeration	**4,973**	**4,924**	**-2.5%**	**2.1%**
Average for the 7 main cities	**7,143**	**6,702**	**-1.1%**	**0.0%**

In March we recorded a fall in the discrepancy between the average offer price and the average price of flats sold. This resulted from constant adjustment of development companies to market needs. The Polish market is rich enough to let its participants choose from the offers that cost PLN 7,143 per sqm. – this is the lowest price since the period before the crisis. Thanks to the fact that subsequent investments launched on the market are less and less expensive, also clients are choosing what they like most – recently they are most willing to buy cheaply. This can be observed especially in the last five months – after that period flats can be now bought at a price per sqm. nearly 5% lower than earlier (a fall from about PLN 7,000 in November 2010 to PLN 6,700 in March 2011). There is still a high difference between clients and developers' expectations in the Tri-City – again a dozen or so per cent difference between the corresponding indices (-12.9%). This is an outcome of constantly high share of transactions relating to locations surrounding Gdańsk and Gdynia. On the other hand, the most balanced market is again in Katowice – a city where flats sold are on average more expensive than those remaining on offer, which is extraordinary against a background of other cities. These results are partly caused by low Katowice market liquidity, which, in turn, leads to the situation where the sale of a few more costly flats influences the statistics. In other cities the rate has remained at the level of the country's average and is harmless for the liquidity of the sale of flats.

A few words about
CHOSEN FACTORS MOULDING THE PRICE OF INDIVIDUAL FLATS

The present over one-percent fall in the average price of flats is a proof of strenuous development companies' attempts to adjust to possibly the widest group of buyers. The strongest fall in the average offer price was recorded in Katowice (-4.2%), slightly smaller in Gdańsk and Kraków (-1.8% and -1.7%, respectively). In Poznań and Wrocław the average price of flats rose a little compared with February (+0.2% and +0.1%). Much more diversification was present in the case of the average price of flats sold. In this case an average monthly change varies from -2.5% in Wrocław, where flats are being sold at a lower and lower price, to +2.4% in Łódź, where the accepted offer is more and more expensive. Warsaw is also a city worth paying attention to – here the two indices have become very close to each other – the offer is slightly less expensive and at the same time clients are willing to accept a bit higher prices. This is a typical example of aspiring to balancing the market, and its effects are mirrored in high liquidity of sale that is still improving.

Despite some variations, the residential market in Poland is more and more balanced. Besides this, the supply is reflecting the market needs better. Still, the main factor influencing the decision whether to buy real estate of not is its price. Nonetheless, nobody is lowering the price of flats via promotions or discounts nowadays – today simply new, well-thought-out development companies' projects are launched, projects that are better adjusted to ongoing buyers' needs. From the point of view of the whole market, it is a very convenient situation; however, what is worrying is launching a large number of new flats in a short period. Presently, nearly 45 thousand flats are on offer in the analysed seven cities in Poland, and the number is rising month by month. There is a threat that such a situation will impact prices, although at the moment projects in the economy segment are selling very well without major bargaining. Nonetheless, the economy laws are inexorable – we should take into account the fact that only strong demand will keep the market in its current condition. Luckily, as of today, nothing threatens the strong buyers' position.

Features and elements of flats perceived by clients interested in buying a flat as essential when choosing a given dwelling have been presented below:

Relation between the floor area of a flat and the designed number of rooms – flats most frequently chosen by buyers in Warsaw are characterised by small floor area compared with the number of rooms secluded in them. Depending on the location, in the case of one-bedroom flats it is 40 – 50 sqm., and in the case of two-bedroom units it is 55 – 65 sqm.

Layout of a flat with rectangular well-laid-out rooms (without connection rooms), with balconies and a possibly small area allotted to internal communication.

Sun exposure of the purchased flat, i.e. its situation regarding the directions of the world – buyers prefer flats situated in building corners or those exposed to two opposite directions; flats with windows facing only one direction are usually found less valuable.

View from windows is also extraordinarily important for buyers, which, apart from substantial advantage of flats with a view of greenery over those facing a street (exposure to noise), is also connected with the feeling of privacy – the less attractive flats are said to be those located opposite windows of other flats which can provide an opportunity of peeping into a given residential premises.

Kitchen arrangement – the solution preferred by buyers is a kitchen in the form of a separate room. Should the kitchen be in the form of a kitchenette, the only acceptable plan is with an additional kitchen window. A kitchen combined with the living room in the form of a dark kitchenette is the least popular option among buyers.

A balcony, terrace or loggia with a suitable floor area making it possible to use this kind of additional space effectively and easily is also a wanted parameter.

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 experiences 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.