



Poland's residential market

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

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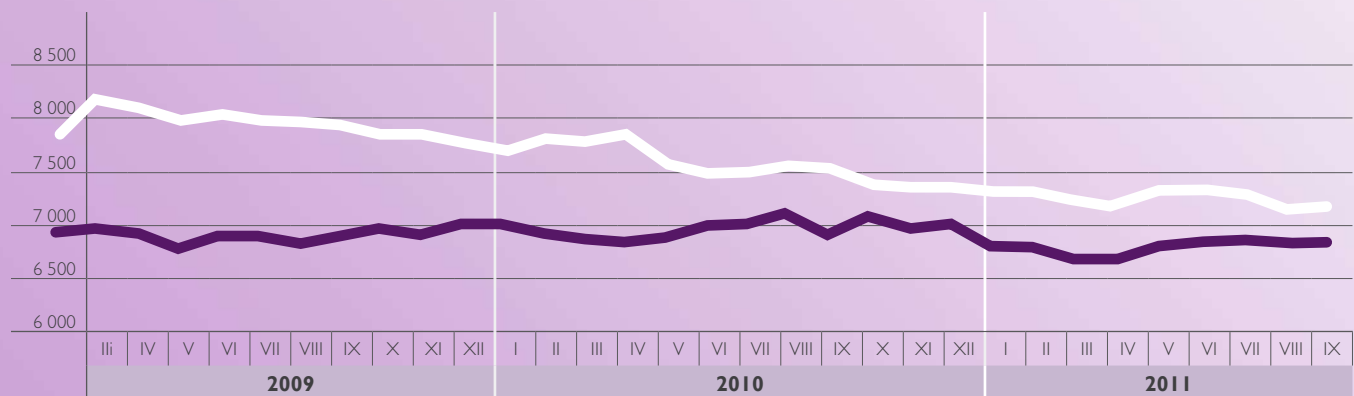
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Residential Market – SEPTEMBER 2011

The summer holidays have already finished and in September it should be expected that the interest in offers among clients will be traditionally on the increase on the real estate market. This is the time of visiting selling offices and dropping in residential trade fairs. This is a convenient moment for finding a flat not only due to the fact that this is the end of summer, but also because of an increased interest in investments started at the beginning of the year. The wide range of flats on offer, including a substantial set of completed dwellings, make the decision about buying a flat easier. We are still observing high supply of residential units accompanied by high demand for them. The offer is very broad and diversified, especially on the leading markets, such as the Warsaw, Cracow, Wrocław and the Tri-City markets. Its price is frequently adjusted to prospective customers expectations and financial possibilities. All these factors provide an opportunity for an increased movement on the real estate market in autumn.

The average price of flats for sale in the seven main cities in Poland at the end of September 2011 reached PLN 7,100 per sq m and was 0.2% higher than the price recorded at the end of August 2011. The trend of falling price of flats has been stopped to some extent. Owing to the currently observed high supply of new flats and the forthcoming winter time, real estate developers will not launch a lot of new projects on the market. Simultaneously, for the last few months clients have been very willing to buy out the least expensive offers. Hence the slight rise in the price of flats which remained on offer. Therefore, we have been observing some regularity in the past few quarter showing that the change in the price of flats does not result from increasing or decreasing the offer prices in projects, but from the change in the composition of the offer. Simultaneously, the average rate of the price of flats sold is still stable currently reaching PLN 6,760 per sq m – a figure similar to the one calculated in the previous months. The price scissors have been on a comparable level, too, showing even a slight tendency to become more narrow.



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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Situation regarding the prices of flats 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 | 5,035 | 5,113 | 1.5% |
| Kraków | 7,086 | 6,740 | -4.9% |
| Łódź | 5,161 | 5,047 | -2.2% |
| Poznań | 6,442 | 6,094 | -5.4% |
| Gdańsk | 6,208 | 5,419 | -12.7% |
| Warsaw | 8,180 | 7,831 | -4.3% |
| Wrocław | 6,746 | 6,367 | -5.6% |
| Warsaw agglomeration | 7,691 | 7,394 | -3.9% |
| Tri-City agglomeration | 6,163 | 5,420 | -12.1% |
| Silesian agglomeration | 4,776 | 4,602 | -3.6% |
| Average for the 7 main cities | 7,100 | 6,760 | -4.8% |

| city | Offer price of flats | Price of flats sold | Change in the offer price of flats September/August | Change in the price of flats sold September/August |
|--------------------------------------|----------------------|---------------------|---|--|
| Katowice | 5,035 | 5,113 | -2.2% | -1.4% |
| Kraków | 7,086 | 6,740 | -0.6% | 1.2% |
| Łódź | 5,161 | 5,047 | -2.0% | -1.4% |
| Poznań | 6,442 | 6,094 | 0.0% | 0.3% |
| Gdańsk | 6,208 | 5,419 | 0.8% | 1.3% |
| Warsaw | 8,180 | 7,831 | 0.3% | 0.4% |
| Wrocław | 6,746 | 6,367 | 1.2% | 1.9% |
| Warsaw agglomeration | 7,691 | 7,394 | -0.2% | -0.3% |
| Tri-City agglomeration | 6,163 | 5,420 | -0.3% | 0.9% |
| Silesian agglomeration | 4,776 | 4,602 | -2.2% | -2.4% |
| Average for the 7 main cities | 7,100 | 6,760 | 0.2% | 0.4% |

SOURCE: redNet Property Group (Consulting Department) on the basis of tabeloafert.pl

Still, the discrepancy between the average offer price and the average price of flats sold is becoming smaller. At present it is 4.8%. The forthcoming winter season should not be expected to bring launching a large number of new projects on the market. In that season the price will be mostly influenced by the change in the composition of the available offer. The fall in the average offer price will be hindered by the dominating share of cheap flats in the total number of flats bought by clients, which, in turn, will lead to the situation where the more expensive dwellings remain on the market. At the same time, the uncertain macroeconomic situation can impact weakening the demand for flats and force a cut in prices. However, we are not observing such a cut at the moment. The discrepancy between these two factors, namely the offer price of flats and the price of flats sold, is still single-digit, except for Gdańsk. On all other markets the difference between these two factors does not reach 6.0%. Cracow is the only city where the price of flats sold exceeds the offer price of flats.

Changes in the average prices between August and September were not large. The average price of flats offered by real estate developers in the biggest Polish cities went up by 0.2% compared to August, and the rate representing the average price of flats sold was 0.4% higher in September than in August. The changes were bigger on small markets where supply of flats and demand for them are low. The average offer price changed most in Katowice (-2.2%) and in Łódź (-2.0%). In these two cities the small number of transactions can result in a significant change in the average price. At the same time, these are poorer developed markets than the Warsaw or Cracow markets, and as a result even a slight deterioration of the macroeconomic situation or a threat of such an occurrence can impact these markets negatively.

Regarding the change in the price of flats sold, compared to August large fluctuations also took place in Katowice (-1.4%) and Łódź (-1.4%) as well as on the developing Wrocław market (1.9%). Flats are bought at a higher price than in August in Cracow (+1.2%), Poznań (+0.3%), Gdańsk (+1.3%), Warsaw (+0.4%), Wrocław (+1.9%) and in the Tri-City Agglomeration (+0.9%).

Along with the remaining high demand for new flats on the most important residential markets in Poland and very high supply of such flats, the discrepancy between the average offer price and the price of flats sold reaches 4.8%, which is slightly less than a month ago. Simultaneously, worth noting is the fact that a slight rise in the average price per square metre of a flats is also possible due to smaller than before floorage of flats on offer. In the case of offering flats with smaller floorage with a given number of bedrooms, even a slightly higher price per square metre does not result in a rise in the average total price of a flat, but is essential for obtaining finance in the form of a mortgage credit.

A few words about CHANGES IN THE OFFER OF NEW FLATS

We have decided to check how the offer of new flats has changed on every market by comparing August 2010 and August 2011. The current and last year's supply of new flats in individual cities has been compared as well, taking into account corresponding months in each year.

As the data in the table above show, last year a rise in supply of new flats took place on each of the seven main residential markets in Poland. The highest percentage increase in the offer was in the area of Wrocław, reaching 41.6%. The development of Krzyki and Fabryczna, two of Wrocław districts, has been advancing very quickly. Besides this, Wrocław is one of the cities organising Euro 2012, and the biggest city in the region constituting the business, industrial, trade and scientific centre. The perspectives of its development together with the expansion of the residential market are very optimistic. In the case of Poznań, the strong market of houses, especially outside Poznań very often realised as self-build construction, results in the situation where the residential market is much more shallow. However, the percentage rise in the offer during the last year was high reaching 30.9% there, similarly to the slightly smaller Łódź market where the observed supply also increased by over 30% compared to the corresponding period last year. Only Warsaw

| City | Supply of new flats Aug 2011 | Supply of new flats Aug 2010 | Percentage change in the offer Aug 2010/Aug 2011 |
|----------|------------------------------|------------------------------|--|
| Warsaw | 18,190 | 14,579 | 19.9% |
| Cracow | 7,473 | 5,494 | 26.5% |
| Wrocław | 7,137 | 4,169 | 41.6% |
| Tri-City | 6,667 | 5,273 | 20.9% |
| Poznań | 4,233 | 2,926 | 30.9% |
| Łódź | 2,895 | 1,904 | 34.2% |
| Katowice | 1,148 | 903 | 21.3% |

OFFER OF FLATS IN EACH OF THE CITIES AT THE END OF AUGUST 2011 AND AT THE END OF AUGUST 2010, TOGETHER WITH THE PERCENTAGE CHANGE

SOURCE: redNet Property Group (Consulting Department) on the basis of tabelaofer.pl did not experience a rise exceeding 20% - however, this results mainly from a large offer which is responsible for a slightly smaller percentage growth compared to other cities.

Also in Cracow a substantial rise of 26.5% was recorded. The city has been developing very quickly, its population increases, and this is the second behind Warsaw business centre in the country, the most important in the south of Poland which is the most densely inhabited part of Poland. The latter largely determines the expansion of residential construction. The Tri-City market grew by 20.9% and is currently smaller than the Cracow market. Looking at the situation from a long-term perspective, it should be noticed that the demographic resources around the Tri-City compared to, for example, Cracow, provide this market with less advantageous perspectives of its development. The rise in supply of new flats reaching 21.3% in Katowice is clearly lower than in other large cities. With a small number of flats on offer, even one investment can largely increase the supply of new flats. Similarly to Łódź, this market is also characterised by strong competition from the secondary market, and is subject to disadvantageous demographic processes.

The autumn and winter season will not favour increasing the offer by realising a lot of new projects. We should rather expect a slight decline in the number of flats for sale, or at least that this number will remain at an unchanged level. A large number of new projects should be anticipated in spring when due to atmospheric conditions beginning the construction and selling is the most convenient.

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.

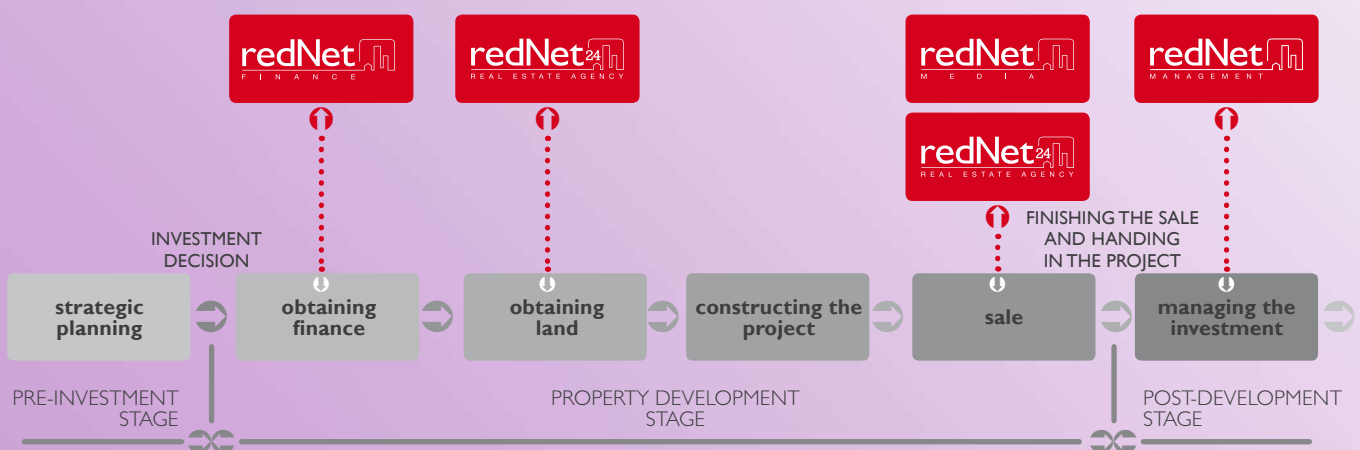
Cooperation with architects

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.



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