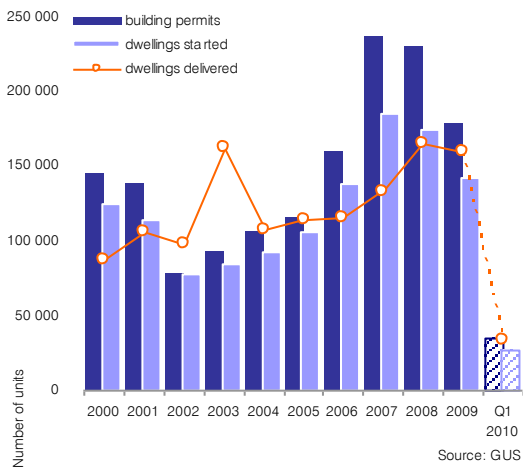


The first quarter of 2010 confirmed that the most important residential markets in Poland are gradually leaving the crisis behind. The number of transactions was similar to the number of dwellings launched for sale.



Statistics of residential construction in Poland



Beginning of a new cycle

The results of the monitoring study conducted by REAS after Q1 2010 confirmed that the situation in Poland's largest residential markets (Warsaw, Kraków, the Tri-City, Wrocław, Poznań and Łódź) is close to the state of balance. Despite a slight increase, the offering volume reached a level similar to the long-term average annual supply and absorption, while the number of residential units launched for sale was similar to the number of units sold.

This scenario resulted from several factors:

- further, though slow, liberalization of banks' rules for granting mortgage loans,
- improvement of the customers' moods due to positive signals about Poland's economic condition from the media and opinion forming circles,
- further, though less dynamic, price reductions,
- adjustment of the new offering to the decreased purchasing power of potential clients, occurring predominantly through launching smaller dwellings to the market.

At the same time, the diversification of the demand/supply ratio in specific segments of the market is becoming increasingly prominent.

Supply

After a dramatic drop in the number of new investment projects launched by developers in Q1 2009, Q1 2010 brought a clear reversal of the trend. According to preliminary statistical data published by Central Statistical Office (GUS), in Q1 2010 developers commenced construction of over 11,500 flats and single-family houses in Poland, i.e. 53.4% more than in the analogous quarter of 2009. Bearing in mind the harsh winter and the fact that the first quarter of the year usually registers the lowest number of construction starts, these figures have to be seen as a sign of optimism from the Polish developers. However, in many companies, the stock of residential units is beginning to decrease, therefore they need to start implementing new projects in order to

conduct their sales process in a smooth way.

In six considered agglomerations, during Q1 2010 approximately 6,200 dwellings were launched to the market, i.e. slightly over 50% of the number of units started in that period in Poland.

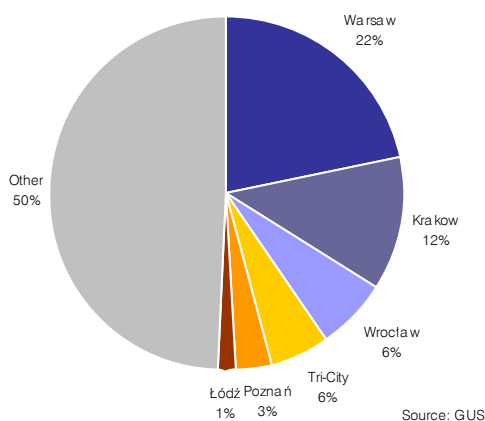
At the same time, statistics confirmed that in the passing business cycle, Poland has already experienced the peak number of units delivered. In Q1 2010, a total of under 34,000 dwellings were delivered country-wide, over 18% lower than in the analogous quarter of 2009. In that time, developers delivered 13,700 units, 24% less than in the previous year. In all probability, results noted for the whole year 2010 will also prove proportionally lower.

The current supply constituted by units under construction and already delivered yet unsold dwellings is undergoing rapid structural changes. At the end of Q1 2010, there were circa 4,500 completed unsold dwellings in Warsaw, and in the six discussed agglomerations their number amounted to slightly over 9,000. In the medium-run, this was probably the highest number of completed units ready for occupancy available on the market. Unless we experience a demand reduction, their number should gradually decrease in the coming quarters.

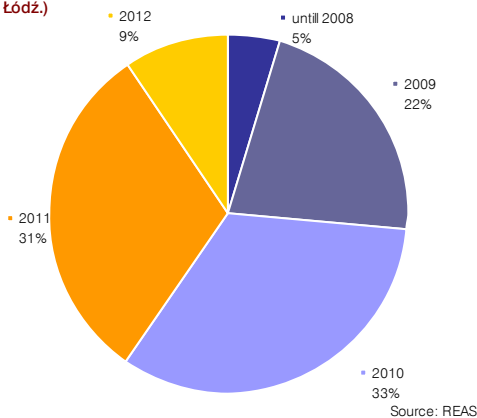
At the turn of 2008 and 2009, market offering was dominated by dwellings scheduled for completion in 2009, comprising 58% of the offering, but completed units had only a 14% share in the offer. At the end of Q1 2010, completed units constituted 27% of the offer, and dwellings scheduled for completion in 2010 - approximately 33%.

The crisis resulted not only in a reduced scale of the market and the return to long-term average figures registered during the previous ten years when it comes to offer volume, but also the number of transactions and number of residential units launched for sale. It is also responsible for the fact that large development companies, which enjoy higher trust from both the clients and financial institutions, have started to play a more significant role in the market. These developers, in turn, have a rather

Share of the analyzed markets in the total number of residential units delivered in Poland in 2009 by housing co-operatives and developers



Structure of the market offering according to the projects' delivery date declared by the developer (aggregated data for the markets in Warsaw, Krakow, Wroclaw, Tri-City, Poznań and Łódź.)





big stock of projects under building permits and are able to smoothly launch their implementation. Since construction costs have dropped considerably during the previous year, it is possible to maintain an attractive level of profitability of developers' operations, even considering the reduced prices.

Demand

The sales intensity ratio, in the six residential markets, measured as a quotient of the number of units sold in a given quarter and the offer volume at the start of the quarter, amounted to 22%; while a theoretical balance occurs when the index is at the level of 25%. However, we ought to bear in mind that the sales rate in the first quarter is usually lower than in the following quarters, and this year this phenomenon was facilitated by a harsh winter which lasted longer than usual.

The crucial factor for the real residential demand and the scale of sales in Q1 2010 was the mortgage loan market. After a period of cautious lending policy in H1 2009, clearly the banks decided to return to crediting purchases of residential units again on new, increasingly liberal terms. Today, the majority of potential clients do not have problems with getting a mortgage loan, especially for smaller, cheaper units. The demand growth has also been influenced to some degree by the Polish Financial Supervision Authority (Polish: KNF) announcement of the "T" Recommendation. We are witnessing the situation where in the period before the recommendation becomes valid, the market is experiencing an artificial boost of demand both for dwellings and mortgage loans, which may however result in a certain drop in sales at the end of 2010, when the provisions of the recommendation become binding.

Moreover, the demand is also boosted by fundamental factors: significant residential markets are experiencing a demographic boom, which in Warsaw is comparable with the mid-1980's period in terms of the number of births. This phenomenon is connected with the increased number of new marriages and newly established households (including single-person households) resulting from the fact

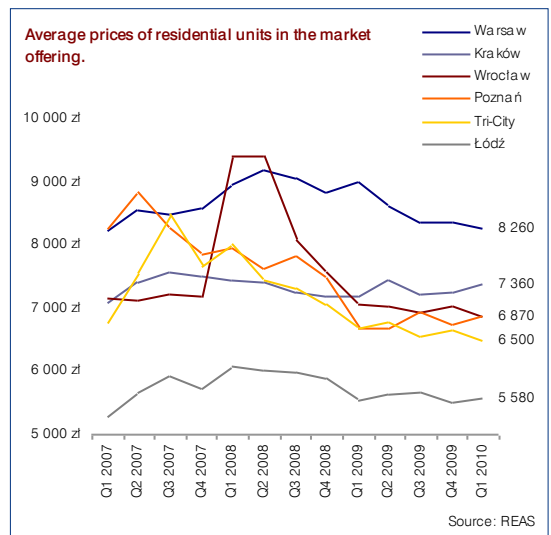
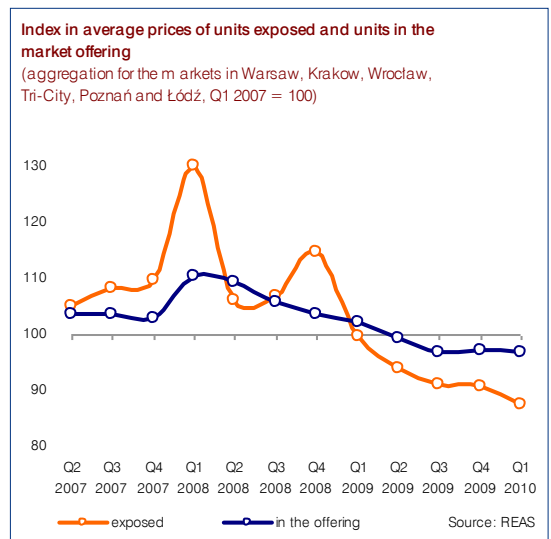
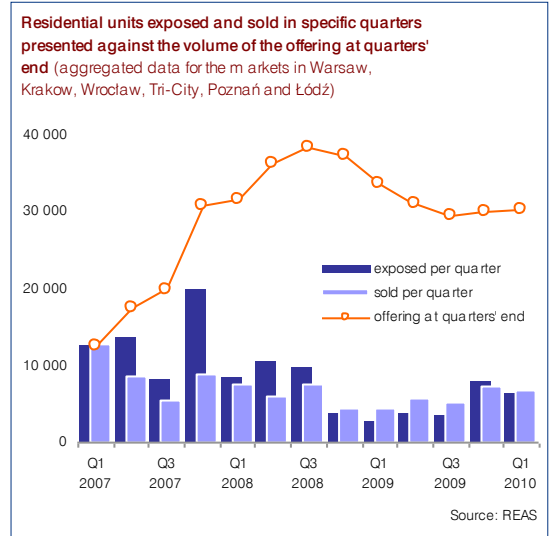
that young people from the second baby boom generation born between 1978-86 are getting married or entering informal relationships while single people are becoming independent. Consequently, the size of an average household is decreasing and the demand for smaller dwelling grows.

However, the demand/supply ratio in specific segments varies considerably. In the cheapest dwellings' segment, featuring units with small usable floor space, one can already observe a surplus of demand over supply. Asking prices in this segment are stable, however the developers have stopped offering discounts, promotions or other financial incentives for the buyers.

In the apartments' segment, especially in the case of larger units with high asking prices, the demand is lagging behind the supply. Still, this results to a high extent from considerable diversity of the quality of offered dwellings, since some part of residential projects was designed in the boom period, when the developers tended to maximize the use of their investment grounds at the expense of dwellings' functionality or privacy of future inhabitants.

Still, we ought to bear in mind that the sales results noted in the previous quarters were accompanied by average price drops both in the case of units newly launched to the market and those already exposed. In Q1 2010, average prices of units exposed in the market became stable, and in the case of units launched for sale, in some cities the prices decreased, while in others they have already stabilized.

Today, all market participants are wondering whether this signifies a permanent change of trend and a beginning of the next phase of the cycle, where the demand will once again exceed the supply. The crucial factor for market development will be the condition of the Polish economy, particularly the Government's solution to the problem of budgetary deficit and national debt. The most probable, though moderately optimistic scenario predicts several peaceful quarters, with demand and supply close to the state of balance and a gradually growing scale of the market.





Selected REAS' Clients



About REAS

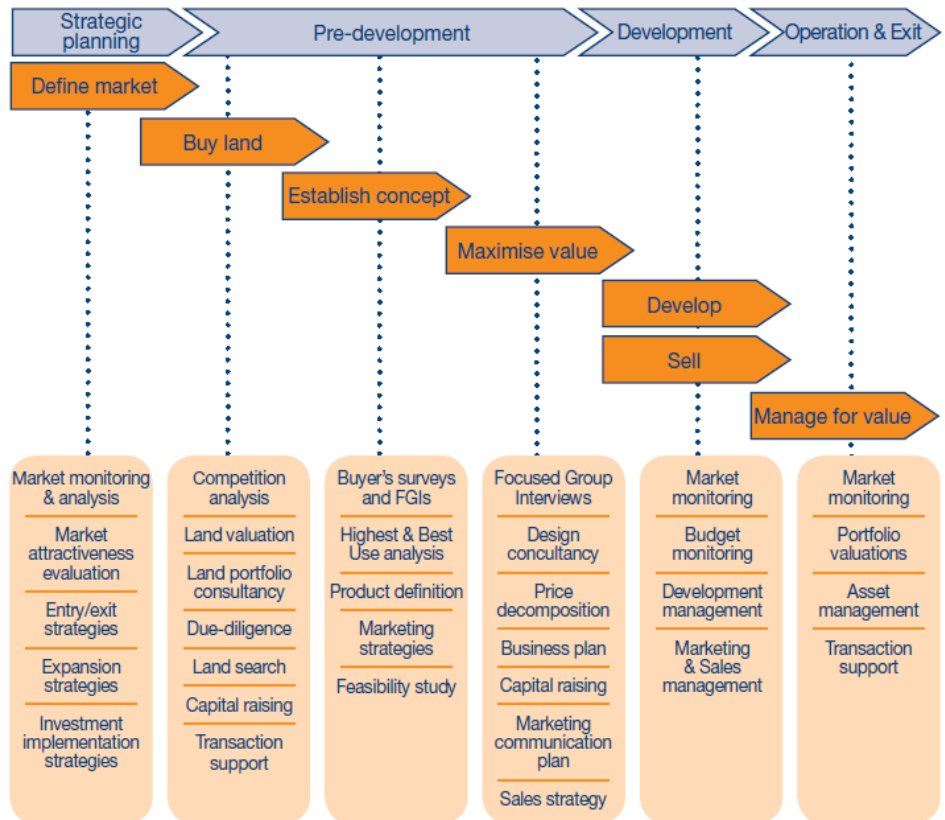
REAS is an expert advisor in the field of investments in the real estate market. Since 1997, REAS has been offering advisory services to developers, investors and banks operating in the residential market.

REAS conducts regular monitoring studies and analyses of residential markets in key Polish cities, offering a broad range of services requiring knowledge of the market, and devises long-term forecasts supporting the process of strategic planning.

REAS offers advice in every stage of investment process, supporting the developer in planning and preparing a product with highest market potential, as well as in defining price strategies, marketing and sales solutions.

Many years of co-operation with institutions financing the residential market in Poland earned REAS their trust in credibility of business plans, valuations and feasibility studies prepared by the company, allowing it to efficiently support investors in the process of obtaining financing for new residential investments.

REAS is strategic partner of Jones Lang LaSalle, the global leader in providing advisory services in the commercial real estate market.



Contact
 REAS Sp. z o.o.
 ul. Bukowińska 22b
 02-703 Warsaw, Poland

tel: +48.22.3802100
 fax: +48.22.3802101

www.reas.pl



Kazimierz Kirejczyk
 Partner, President of the Board
 kazimierz.kirejczyk@reas.pl
 +48.22.3802108



Grzegorz Żochowski
 Partner, Capital Markets
 grzegorz.zochowski@reas.pl
 +48.22.3802109



Katarzyna Kuniewicz
 Associate Director,
 Market Research
 katarzyna.kuniewicz@reas.pl
 +48.22.3802125



Paweł Szejter
 Partner, Advisory
 pawel.szejter@reas.pl
 +48.22.3802105



Karol Dzieciol
 Associate Director,
 Development Consultancy
 karol.dzieciol@reas.pl
 +48.22.3802122



Maximilian Mendel
 Associate Director,
 Strategic Consultancy, CEE
 maximilian.mendel@reas.pl
 +48.22.3802118