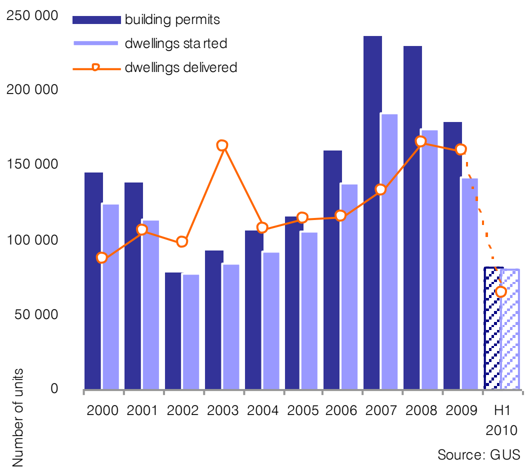
Residential Market in Poland 06.2010

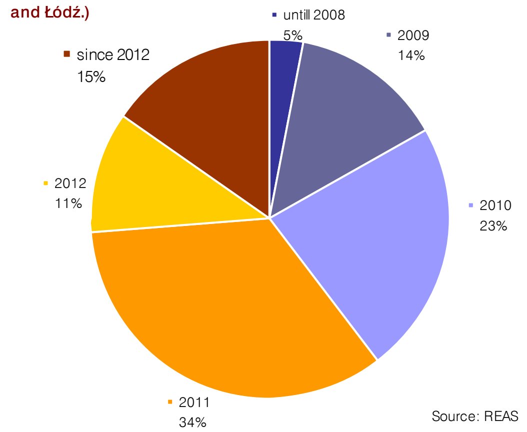
Market data after Q2 2010 shows that most developers remain optimistic, though their confidence has not been fully justified by the sales results.

* the number of transactions per quarter vs. the offer volume at the quarter's beginning

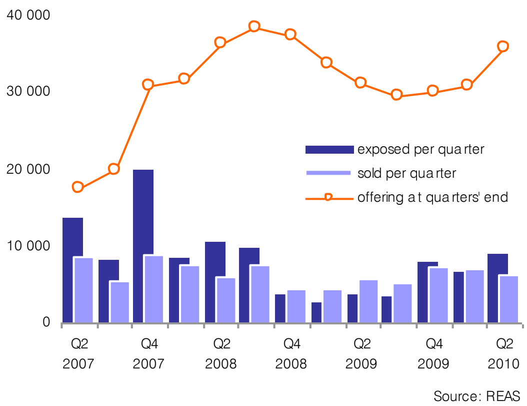
Statistics of residential construction in Poland



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



Residential units exposed and sold quarterly presented against the volume of the offering at quarters' end (aggregated data for the markets in Warsaw, Krakow, Wrocław, Tri-City, Poznań and Łódź)



The market offer is growing

First half of 2010 brought a series of signs calling for optimism in the residential market area. Polish economy accelerated notably and it seems that it will be possible to achieve the predicted level of economic growth of 3% in the current year. The unemployment rate remained stable, while agglomerations with the most active residential markets continued to enjoy a significantly better situation than other Polish regions. Banks were more willing to grant mortgage loans, while interest rates remained at unusually low level.

However, results of the market monitoring study conducted by REAS after Q2 2010 indicated a significant growth of offer volume accompanied by a moderate increase in the number of newly launched residential units. Contrary to the developers' expectations, sales in Q2 2010 have not increased as compared with the previous quarter, despite the fact that the second, spring quarter of the year is usually one of the top two periods of the year in terms of residential sales. Therefore it is worth taking a closer look at the phenomena which make up the current situation in the residential market in Poland.

Supply

The figures provided by the Central Statistical Office (GUS) confirmed that in Q2 2010, Polish developers increased the number of construction starts considerably. According to preliminary GUS statistics, about 20 000 flats and single-family homes were started by developers in Q2 2010 throughout Poland (in Q1 2010 - 11,500). In H1 2010, investors in this category launched the construction of over 31,500 residential units, an increase of 67.2% over H1 2009. Housing co-operatives also intensified their construction activity during that period, starting 2,100 units, an increase of 13,4 % over the same period the previous year. It is definitely an expression of optimism on the part of Polish developers, resulting to a certain extent from the decent level of sales noted in the previous three quarters, but also owing to positive information regarding the current and future situation of Polish economy released by financial institutions and the media.

In Q2 2010, within the six analyzed Polish agglomerations, over 8,800 residential units were launched on the market, while the total number of units launched in H1 2010 reached ca. 15,300, which means that it constituted slightly more than 48% of the number of units started in that period by developers and housing co-operatives in Poland.

At the same time, the statistics confirm that in the current business cycle, Poland has already experienced the peak in terms of the number of residential units delivered to the market. In H1 2010, less than 64,000 units were delivered in Poland, a decrease of over 16% from the analogous period of the previous year. The developers delivered 25,500 residential units in that period, about 30% fewer than in the previous year. Total results for the year 2010 will most likely be proportionally lower.

An important indicator illustrating the market situation is the increase in the offer volume. At the end of Q2 2010, the markets in six agglomerations had nearly 36,000 units on offer. The growth of the offer volume resulted not only from the fact that the number of newly launched units was higher than the number of units sold but also from the fact that some properties were returned to the market: units from projects the implementation of which has been temporarily suspended, often in order to redesign them, as well as, though to a smaller extent, completed units the buyers of which decided to withdraw from the purchase, usually due to lack of creditworthiness.

On the other hand, the scale of new supply in the apartment segment of the market remains very low. This is reflected in the average price of all units launched on the market which maintains a decreasing trend.

Completed and unsold units still constitute a significant part of the current market offering. At the end of June, there were circa 4,500 such units on the Warsaw market, same as in the previous quarter. In total, the six analyzed agglomerations featured slightly over 9,200 completed and unsold units and this number has not changed during Q2 2010.

In terms of units' delivery dates, the structure of the offering is starting to stabilize. At the beginning of 2009, the market was dominated

by dwellings scheduled for completion within 12 months which made up 58% of the offering, while units completed had only a 14% share of the market. At the end of Q2 2010, completed units constituted 25.7% of the offer (in the previous quarter - 30%), while units scheduled for delivery in H2 2010 - circa 17.5% of the offer.

Information from the companies indicates that the developers are planning to maintain the current rate of project starts. If there is no significant increase in sales, the offer volume at the end of the year will be considerably higher than in January and it will be justified to talk about a surplus of supply over demand. As a result, it seems completely unfounded to predict any price growth in the upcoming quarters. Since construction costs decreased significantly in 2009, it is possible to achieve a satisfactory profitability even at slightly lowered prices

Demand

Sales intensity ratio measured as a quotient of the number of units sold in a given quarter and the offer volume at the quarter beginning, amounted to 22% in Q2 2010, while theoretical balance occurs when the index is at the level of 25%. The sales rate was similar to the one noted in Q1 2010, however we ought to bear in mind that the second quarter of the year is usually characterized by a higher sales rate than the other quarters.

Data regarding the scale of mortgage lending in H1 2010 shows significant growth. The increased demand for mortgage loans also resulted from the approaching deadline for the banks to implement the provisions of the recommendation "T", although it is difficult to assess the extent of its impact. How can we explain the lack of increase in the sales of residential units in the primary market?

This situation is difficult to interpret. Most likely it was caused by simultaneous occurrence of a series of psychological and economic factors and by the characteristics of the current market offering. Certain buyers may have been negatively affected by the national period of mourning or the flood endangering their cities.

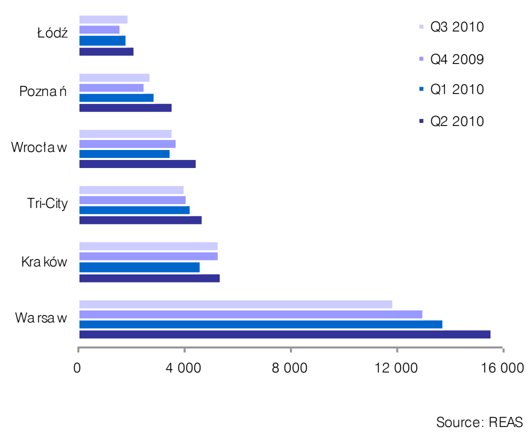
It is possible that some part of units selected and reserved in Q2 2010 will be sold in the coming months, resulting in significantly better sales rate in Q3 2010. However, it is also possible that the current level of sales, which is not unusually low, does in fact reflect the present scale of demand, considering the current prices, incomes and access to mortgage loans.

The situation has also resulted from maladjusted demand and supply in specific market segments. When it comes to the sales of completed units, a reversal of the trend is clearly visible: such dwellings are selling much slower than units in projects recently launched to the market. A deeper analysis brings to light the differences between the old offer and the new one: new projects feature significantly smaller units in specific size categories, while their total prices are better adjusted to the current creditworthiness of the main target group.

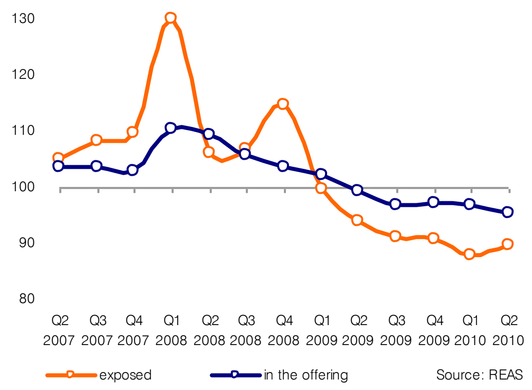
As a result, when it comes to the cheaper unit segment offering relatively small floor areas, we are still witnessing a slight surplus of the demand over the supply. In the upper-middle and high-end apartment segment, especially in the case of larger dwellings with high total prices, the supply continues to surpass the demand. There are still no buyers looking for dwellings from this segment for investment purposes.

The following quarter will show whether the optimism demonstrated by Polish developers will translate into significantly higher sales, or whether the sales stabilize at the current level and the market once again becomes more competitive while the surge of developers' optimism recedes. In the medium-term perspective, the market situation will depend predominantly on the condition of the Polish economy, particularly the governments' way of dealing with the problems of budgetary deficit and government debt.

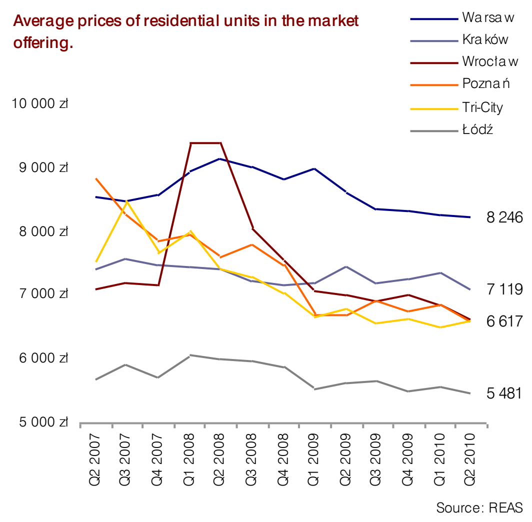
The number of units in the market offer



Index of average prices of units exposed and units in the market offering
(aggregation for the markets in Warsaw, Krakow, Wrocław, Tri-City, Poznań and Łódź, Q1 2007 = 100)

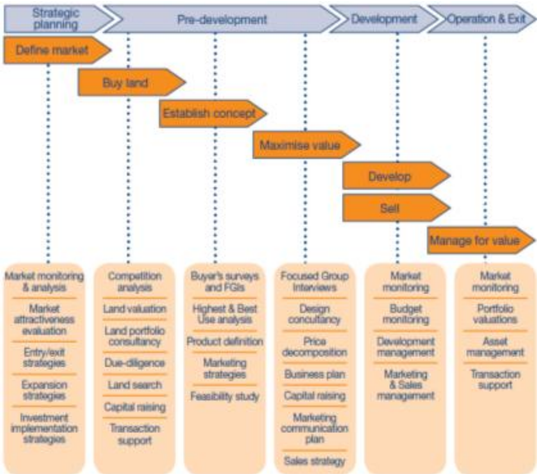


Average prices of residential units in the market offering.



Selected REAS' Clients

REAS Services



About REAS

REAS is an advisory company specializing in issues relating to the residential market. Since 1997, we have been cooperating with developers, banks, investors and other entities operating in the residential market. Only during the four previous years we worked for over 260 different clients, effectively supporting them in the process of project planning and implementation.

Since the year 2000, **REAS has been conducting continuous monitoring of the primary residential market**, accumulating data on projects in a database based on the GIS system. REAS database currently features 6,064 projects, including 2,043 projects for sale offering 57,000 flats and houses, as well as 889 planned projects which have not been launched for sale yet. This knowledge allows **REAS to offer a broad range of market analysis services and to devise long-term market forecasts** supporting the process of strategic planning.

REAS provides advisory services at all stages of the investment process, supporting the developers in the process of designing and preparing a product with the best market potential and competitiveness. The implemented advisory projects feature the following services: location analysis, recommendations regarding the project-mix and functionality of residential units, opinion and recommendations regarding architectural designs, pricing strategies and units' price lists, and recommendations regarding marketing and sales strategies.

REAS specializes also in valuations of investment land and existing residential buildings. The valuations are conducted by certified property valuers with many years of experience allowing them to use both domestic and foreign valuation standards, i.e. British (RICS), European (TEGOVA), American (USPAP) and international (IVSC).

Thanks to our long-term cooperation with institutions financing the residential market in Poland and the recognized reliability of our business plans, valuations and feasibility studies devised by the company, **REAS is able to effectively support investors in the process of obtaining financing for new residential investments**.

In 2007, **REAS became a strategic partner of Jones Lang LaSalle**, the global leader in advisory services in the commercial real estate market.

Visit www.reas.pl where you can find information on the services provided by REAS as well as analyses, commentaries and reports regarding the residential market.

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