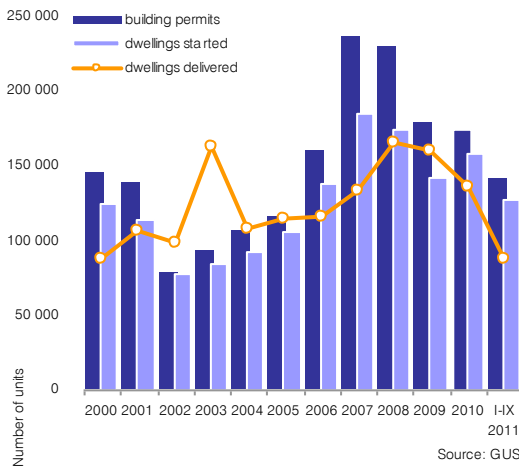


The summer quarter brought about a minor decrease of both sales and the number of newly launched residential units. Despite, the number of transactions within the last 12 months reached a record-high level since the boom.

The most significant event of this quarter was passing of the developer bill, which will strongly influence the sector in the nearest future.



Statistics of residential construction in Poland



Residential market in the third quarter

The results of the monitoring study conducted by REAS at the end of Q3 2011 confirmed that there has been no major change to the trends observed for the last seven quarters. Sales in the six markets remained stable, the number of units launched for sale again notably exceeded units sold, the offer at quarter-end grew significantly, prices of newly launched and offered units slightly decreased. The turnover scale over the past twelve months was the highest since the boom of 2007.

Regulatory actions were of great importance to the market environment this quarter. With the beginning of September there have been crucial changes to the rules of the "Family on Its Own" program, and in mid-September the Polish Senate accepted the final form of a bill protecting the rights of developers' clients. Psychological factors, mostly related to concerns about the influence of macroeconomic situation on buyers' finances, play an increasingly important role in the residential market.

Supply

According to the results of the Q3 2011 REAS monitoring study, the number of dwellings launched for sale in six agglomerations amounted to nearly 8,900, i.e. was over 23% higher than in Q3 2010 and 17% lower than in Q2 2011. The number of units introduced to the market over the previous four quarters reached 39,000, a result which is 6,500 higher than the number of units launched for sale in the four quarters of 2008. The total of units launched for sale in the first three quarters was nearly equal to the result recorded for the whole 2010. This figure was higher only in the first half of the record-breaking year 2007.

In this context, data published by the Central Statistical Office on the number of dwellings started in 2011 seems puzzling. According to CSO data, developers and cooperatives started construction of some 40,000 units and houses in the January-August 2011 period, of which possibly over a half is located in the largest cities. Since the number of units launched for sale in the major Polish markets is currently twice higher than of those formally started, we must be witnessing a combination of several phenomena: launching in 2011 sales of units whose construction had formally started earlier, launching sales after building permits are obtained but before the

formal construction start, and last but not least, a repeated concentration of developers' construction in the largest agglomerations, accompanied by decreased activity in smaller markets.

Despite rather good and stable sales, the total offer volume for the six agglomerations exceeded 48,000 units at the end of Q3 2011 and reached the highest value in the history of the Polish developers' market.

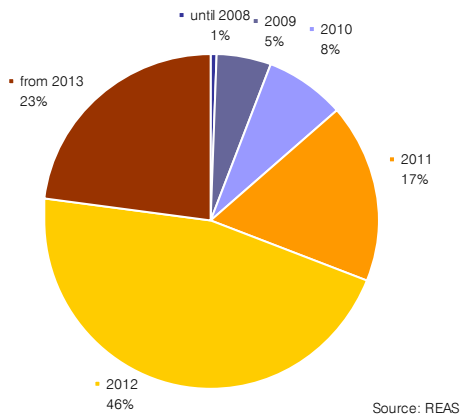
The offer is dominated by units under construction, which constitute over 70% of all offered units. Compared to the previous quarter, the number of completed unsold units dropped. At the end of September there were some 4,000 such units in Warsaw, i.e. slightly less than in the previous quarter. In total, the six analyzed agglomerations offered some 9,500 completed unsold units, which is a 2% decrease as compared to Q2 2011.

Supply is therefore high, although the number of completed units is slowly falling. Yet, while discussing the current supply volume, the effects of the 2009 construction slowdown need to be considered. As a consequence the year 2011 will most likely be a year with the lowest number of units delivered by developers and housing cooperatives since 2005. The present production acceleration may, therefore, be treated as a compensation for this drop, balancing the "supply losses" in the medium-term perspective.

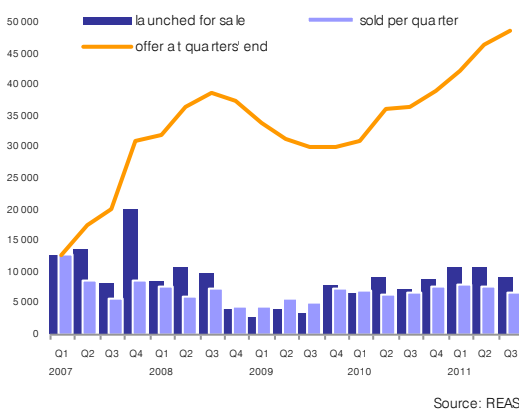
Demand and prices

In Q3 2011, the number of transactions (preliminary agreements) calculated for the six analyzed markets decreased in comparison with Q2 by close to 10%. Although sales in the summer period usually drop, only to grow in the following quarter, it should be remembered that August was the last month of more favorable limits within the "Family on Its Own" program, which resulted in a certain increase in the number of transactions. Sales intensity in the six markets, calculated as the ratio of the number of units sold within the quarter to the volume of the offer at the quarter's beginning, amounted to 14% at the end of September, and was three percentage points lower as compared to Q2 2011. The offer growth rate is ahead of the sales rate, as the theoretical balance is estimated at the level of 25% intensity. Also worth considering is the current offer volume compared to sales over the past four quarters. In general, the index ranges from 137% in the Tri-City (i.e. the local offer constitutes 1.37 of annual sales) up to

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



Residential units launched for sale and sold quarterly vs. the volume of the offer at quarters' end (aggregated data for the markets in Warsaw, Krakow, Wroclaw, Tri-City, Poznań and Łódź)





181% in Poznań. With the exception of Warsaw and Tri-City, where the index remained on the same level as in the previous quarter, in other cities the ratio of the offer volume to the sales result declined (i.e., commercialization of the whole local offer takes more time.)

The total sales level in the past four quarters in the majority of cities was slightly higher than the long-term average number of units sold in these markets and slightly better than in the Q4 2007 – Q3 2008 period, when the demand was strongly stimulated by loans denominated in Swiss Franc. This comparison clearly illustrates that regarding the number of transactions, this result should be seen as a success.

Maintaining this level of sales was possible mainly thanks to better adjustment of supply to buyers' expectations, as well as either steady or falling prices. The majority of cities observed a minor drop in the average prices of newly launched and offered units, which in the face of growing inflation means a visible drop of real prices. This fall of price and average price index results from a combination of several different phenomena:

- general correction of the level of prices which in the years 2006-2008 experienced strong upward pressure due to speculative bubble and demand for cheap money,
- actual lowering of prices of less attractive (especially completed) residential units, sometimes resulting from pressure on the part of financial institutions,
- changes to the basket of investments – decreasing share of apartments, growing share of units located away from the centre.

However, the sales per average investment project are in steady decline for some time now. This translates into an increasingly diversified condition of various developers: in some companies sales remains stable, while in others it decreases considerably, causing liquidity problems. The market becomes more competitive not only in terms of prices, but also when it comes to the flexibility of payment systems offered to the buyers.

Developer bill

The bill on protection of the rights of purchasers is a law which introduces crucial changes to relations between the developer, the client and the banks. The bill was constructed in great haste and while some of its regulations are

surprisingly detailed, others lack precision and leave plenty of space for interpretation. The bill takes effect after six months from its publication in the Journal of Laws (Dziennik Ustaw), which will probably happen in October 2011.

In the process of the bill's legislation by the parliament, REAS representatives were asked to analyze particular regulations and potential market effects of its passing. Currently, together with lawyers and bankers, we are conducting an in-depth analysis of the possible consequences of particular resolutions of the bill in its final form.

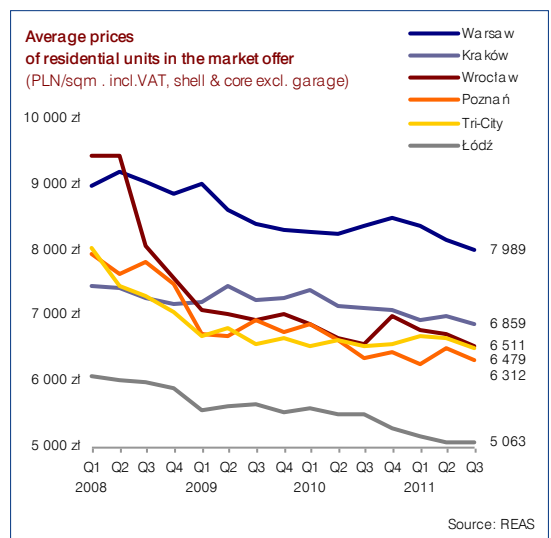
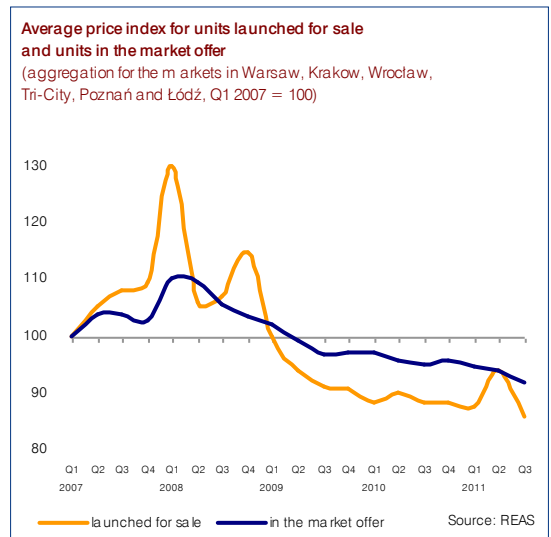
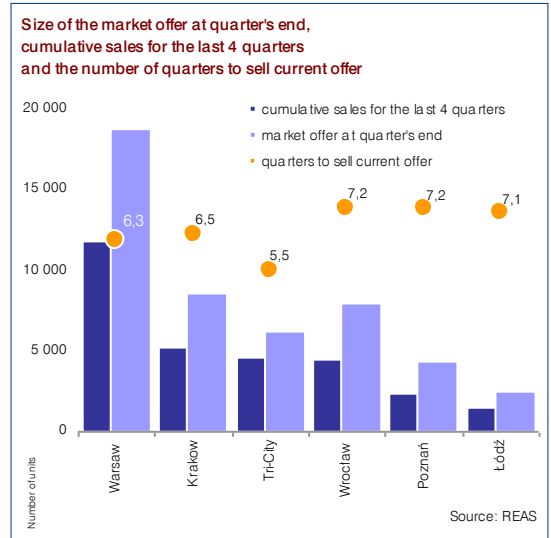
One important new responsibility of the developer is the preparation and disclosure of an information prospectus. The most controversial and at the same time risk-carrying regulation is the requirement to include in the prospectus all public and private schemes realized and planned within 1 km from the subject project which may have significant impact on both the quality of life and the value of the property.

This new legal situation will encourage greater demand for developer loans. Some banks will offer exclusively closed trust accounts combined with full financing of a construction phase. It is possible that some banks will allow accumulation of means on open accounts but also providing loans for financing of construction process. Developers will, therefore, compete for loans and the importance of the quality of projects and correct documentation, including a credible business plan, will be more important than ever.

Commentary and forecast

In the nearest future the supply/demand ratio will be shaped by numerous, hard-to-predict factors:

- Passing of the so called "developer bill" might – before it becomes effective - cause limitation of residential purchase and, afterwards, realization of the previously withheld purchases in the following six months. As far as supply is concerned, we might observe an increase in the number of projects whose sales are to be launched within the next six months, which may partly result from concerns about possible unfavorable changes to mortgage policy on the part of banks. The impact of this factor will be mostly determined by how it is presented in the media;



Selected REAS' Clients



- Tax policy. VAT tax increase in residential sales cannot be ruled out. Changes to taxation of natural persons are also possible;
- Psychological factors – including reaction of potential buyers to forecasts of further price drops related to substantial supply, or on the contrary, to opinions predicting price appreciation due to implementation of mechanisms required by the developer bill;
- Deceleration of economic growth, inhibited growth of wages, higher effective taxation might all translate into a deterioration of the public mood and decreased readiness for long-term debt.
- As compared to the previous months, the demand in the nearest future will be weakened by decreased financial support of buyers within the "Family on Its Own" program, whereas supervision's requirements towards banks regarding mortgage loans portfolio might effect in lower creditworthiness of buyers in 2012. Part of the potential demand, i.e. households with debts in Swiss Franc, will continue to be frozen and inactive. The end of 2012 might, in turn, bring about a mobilization both on the part of buyers and banks to use available subsidies within "Family on Its Own" before the final liquidation of the program.

Keeping demand on the current level could, in turn, be favored by lowering of unit prices, which is less painful for developers in the case of a visible decrease of execution costs. This should be encouraged by the declining number of procurements in other construction sectors and lower demand for building materials country-wide. The substantial offer should also encourage concluding transactions: buyers will find it easier to adapt the purchase to their expectations. This reduction, however, will most probably be neutralized by growing cost resulting from the introduction of solutions required by the developer bill.

On the other hand, after limitation of the "Family on Its Own" program, the residential sector will operate almost exclusively on real demand potential, without any additional funding, which has often been used in the recent years by e.g. the road construction sector. Today, banks offer primarily loans in Polish Zloty and on rather conservative conditions. It is also difficult to point to any mechanism for developer support. Hence, unless external factors destabilize the market situation, the scale of future demand should be comparable to the present, or slightly lower, proportionally to the possible limitation of crediting.

Key Services

- Market research, analysis & forecasting
- Competition monitoring & analysis
- Consultancy regarding Developer Bill
- Highest & Best Use studies
- Development consultancy, location analysis, recommendations regarding the project-mix and functionality of units
- Guidelines for architects and review of designs
- Marketing & sales consultancy
- Property valuations (RICS, TEGOVA, USPAP, IVSC)
- Business plans & financial feasibility studies
- Capital raising & search for equity partners
- Investment sites disposal & acquisition

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