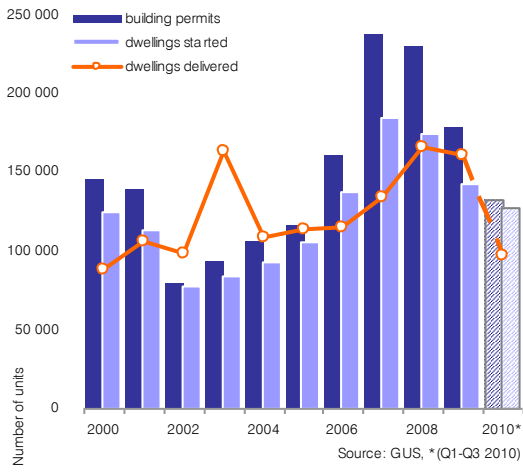


Despite the holiday period, Q3 sales of new residential units slightly increased while the prices stabilized



Statistics of residential construction in Poland



Most of the developers are moderately optimistic

Information about the economic situation in Q3 proved somewhat more favorable than even the rather optimistic forecasts. After a difficult spring, the climate in the Polish residential market is once again moderately positive. However, can it be justified by the facts?

The Polish economy has accelerated noticeably and it seems likely that economic growth in the current year will reach a level close to 3.5%. The situation in the labor market is generally stable and in certain sectors it has improved. The number of residential mortgage loans granted is growing and the interest rates remain unusually low. On the other hand, the country needs reforms in order to stop the increase in public debt and this can only be achieved, at least temporarily, by limiting the income growth in Poland.

The results of REAS' market monitoring conducted at the end of Q3 2010 indicate above all a diversification of the situation in specific agglomerations in terms of the ratio of the number of units sold and number of units launched to the market, and therefore also in terms of the volume of the market offering. Aggregated sales results for the six analyzed markets in Q3 2010 are slightly higher than in the previous quarter, despite the fact that the second, spring quarter is usually one of the two periods during the year when the companies note the highest sales. Within the four previous quarters, a total of over 27,000 residential units were sold in the six agglomerations, 38% more than during the four "crisis" quarters (Q4 2008 - Q3 2009) and only 9% lower than in the period between Q4 2007 and Q3 2008, though the current prices are at a much lower level.

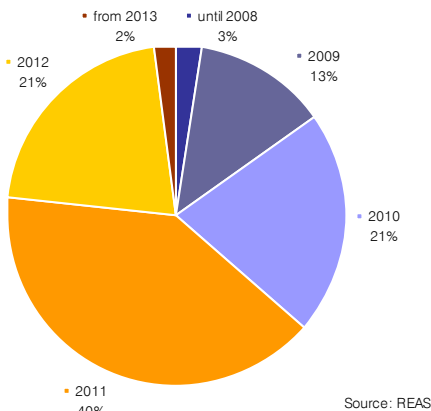
ers were granted building permits for a slightly lower number of units. Between January and September 2010, housing co-operatives launched the implementation of circa 3,300 residential units, which was close to the result noted during the first nine months of the previous year.

In Q3, in the six analyzed agglomerations, close to 7,200 residential units were introduced to the market, bringing the year to date number of dwellings launched for sale to circa 22,400, nearly 44% of the number of residential units started in that period by developers and housing co-operatives in Poland.

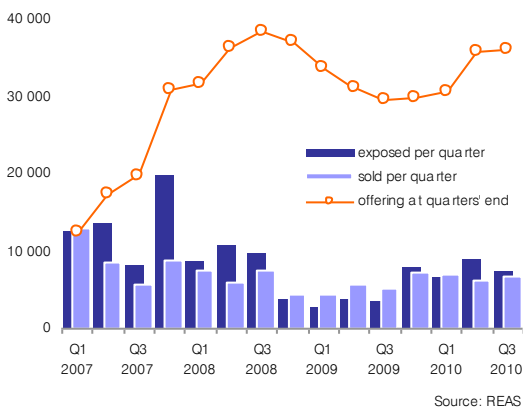
The statistics have also confirmed that during the currently finishing economic cycle, Poland has already surpassed the peak level of units delivered for use. Between January and September 2010, about 97,000 dwellings were delivered in Poland, over 15.5% less than in the analogous period of the previous year. The developers delivered 38,600 units during that time, 28.6% less than in Q1-Q3 2009. The results for 12 months of 2010 are also likely to be proportionately lower.

Due to a decrease in the number of construction starts combined with stable sales levels, the offering volume aggregated for the six analyzed agglomerations remained almost unchanged. At the end of Q3 it reached slightly over 36,000 residential units. Completed and unsold dwellings still constitute a significant part of the current offering. At the end of September, the number of such units in Warsaw reached circa 4,300, and was slightly lower than in the previous quarter. In total, residential markets in the six agglomerations offered slightly more than 9,600 completed and unsold units and their number increased by several hundred during Q3. The structure of the offering in terms of the scheduled delivery date is characteristic for the growth phase of the economic cycle. At the end of Q3 2010, units under construction constituted 73% of the market offering and a vast majority among them was scheduled for delivery within a dozen or so months. 18 months earlier the offering featured predominantly units scheduled for completion during the current year (i.e. 2009), which constituted 58% of all exposed dwellings, while completed units had only a 14% share in the market.

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).



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



Supply

Statistics published by the Central Statistical Office (GUS) have confirmed that in Q3 Polish developers launched the construction of a lower number of units than during spring quarter, which is explainable by the typical implementation cycle. Between January and September, this group of investors started the construction of nearly 48,000 residential units, i.e. 61% more than in the analogous period of the previous year. In the same period, develop-



During the previous four quarters, in the majority of cities – except for Wrocław and Poznań – developers managed to successfully adjust the number of units launched to the market to the sales level. At the same time, information from the companies indicates that developers intend to increase the number of new projects launched to the market during the final quarter of the year. If the sales level in Q4 fails to grow significantly, the market offering at the end of the year will be much higher than in January, causing a surplus of supply over demand. Consequently, it seems unreasonable to predict a price increase for the coming quarters.

Demand

Sales intensity aggregated for the six analyzed markets, i.e. the ratio of the number of units sold within the quarter and the offering volume at the beginning of that quarter, reached 17% in Q3 2010. This means that the sales rate was much lower than in Q1 and Q2, when it exceeded 20%, while 25% is the level of theoretical balance. Among the largest markets, in Q3 this index exceeded twenty percent only in Krakow (22%). The lowest results were noted in Poznań (13%) and Łódź (14%).

In most cities, the total sales level during the four previous quarters resembled the long-term average of sales for these markets, while in Krakow it was significantly higher. In this respect Warsaw is the exception, since only 10,500 units found buyers in that period, circa 2,000 less than the long-term average transaction level for this market. Therefore it seems that at present, the capital city has the highest growth potential when compared to the other cities.

The average prices of newly launched units have stabilized, with slight oscillations in specific quarters. Prices of new dwellings offered by developers are at a similar level to the asking prices of units being subject of transactions, while average prices of units remaining in the market offering are slightly higher.

The total price of the unit remains the most crucial factor influencing purchase decisions. In other words, given the same price per square meter, the clients are looking for

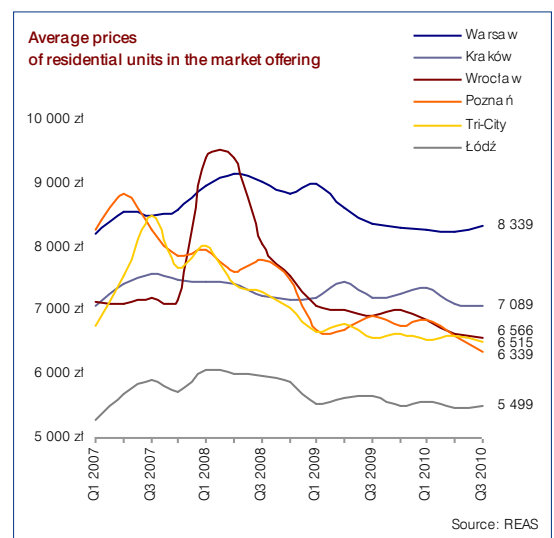
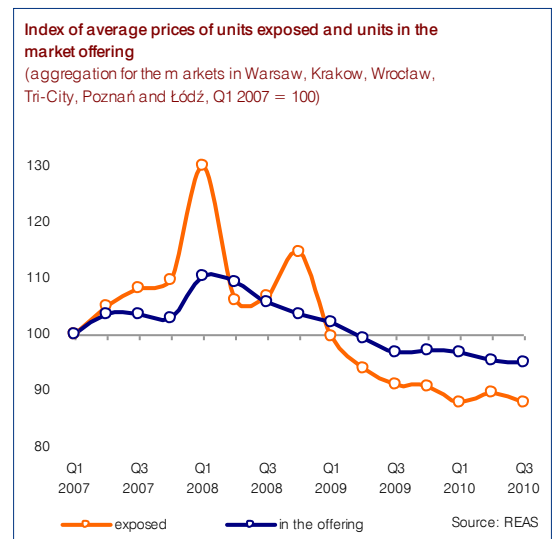
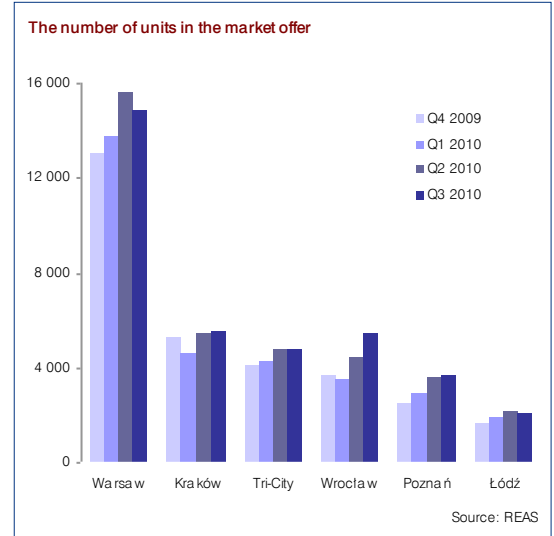
smaller units with the same number of rooms. It is definitely a consequence of the banks' lending policies which are more cautious in assessing clients' creditworthiness than during the boom period. However, while buyers are still likely to be granted loans, it is much more problematic for the developers. It is also increasingly difficult for the developer companies to make bond placements.

If the bank policy regarding developer loans does not change in 2011 and the market fails to offer alternative sources of financing, some developers may experience problems with launching new projects. On the other hand, the current supply level is quite well adjusted to the real demand, bearing in mind present prices, incomes and access to mortgage loans.

The trend regarding completed units prevails: their sales rate is much lower than in the case of units newly launched to the market. A more detailed analysis reveals certain differences between the new and old offering: dwellings in new projects are significantly smaller across specific size categories, while the average price of completed units is usually higher than in the case of new market offering. In the apartment segment, especially when it comes to larger dwellings with high total prices, the supply still exceeds the demand. There are still no buyers searching for such units for speculative purposes.

In terms of sales, Q3 2010 proved better than expected. The holiday period usually results in a drop of the number of transactions after intensive sales during the spring months. The current result was probably caused to some extent by delayed transactions from Q2. Another reason for the improvement was the intensification of sales operations by developers, combined with price reductions.

Generally speaking: developers are planning to launch new projects at a stable price level, clients are searching for new dwellings during fairs and in sales offices, and banks are declaring their willingness to grant more loans and to lower their margins. The following quarter will show whether the primary residential market is experiencing a stabilization phase or the beginning of a growth trend.





Selected REAS' Clients



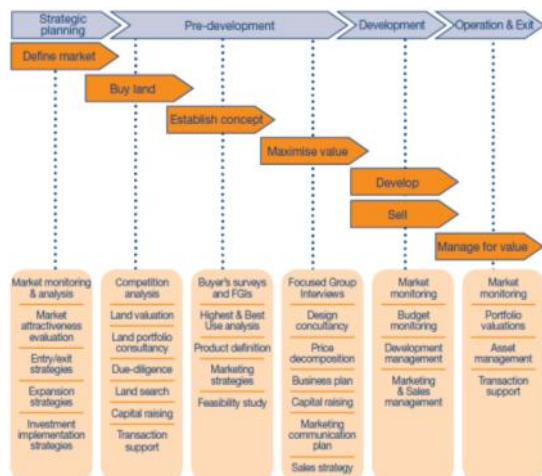
About REAS

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 Services



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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