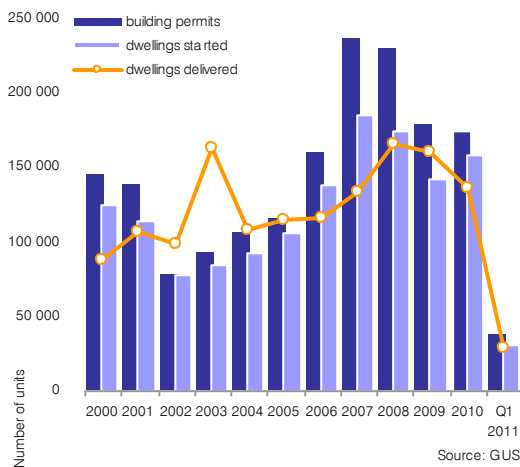


Optimistic sales results encourage developers to launch new projects. In consequence current supply significantly exceeds demand. The number of unsold apartments increases, so does the risk of market destabilization.



Statistics of residential construction in Poland



## Growing number of unsold apartments

In the residential markets of the largest Polish cities, Q1 2011 may be described as a period of intense work: sales, planning of new and restructuring of old projects. No major disturbances were noted in the market environment. Although new loans decreased in Q4 2010 as compared to the preceding quarter, inflation is growing, and the Monetary Policy Council raised interest rates in Q1, the financing conditions remained virtually unchanged. On 1 January the VAT on new residential units increased from seven to eight percent, however, no downward trend was recorded in the sales, unlike in the case of the previously introduced tax regulations, which were unfavorable to the residential market.

The budget deficit did not exceed the 55% threshold. Financial markets calmly accepted the new rules of Open Pension Fund (OFE) financing, while all major renowned Polish and foreign institutions unanimously forecast that in 2011 the Polish GDP growth will reach 3.7-4.3%. Even if the forecasts do not take into account the effects of political unrest in North Africa and reaction to the Portuguese crisis, Poland's economic situation is still perceived as good.

Yet, the country needs reforms to stop the growth of public debt, which will be hardly possible to achieve without influencing the income growth of Poles. The government's actions are being carefully observed by financial markets, and the economic situation in EU states is very diversified.

The results of market monitoring conducted by REAS at the end of Q1 2011 reveal yet another quarter of a substantial offer growth in the majority of cities, due not only to the launch of new projects, but also to the relaunched sales of many projects suspended temporarily because of the crisis.

As a consequence, the offer in the six markets increased for the sixth subsequent quarter and is 36% higher than a year ago. This occurred despite the fact that in terms of the number of units sold, the quarter was again better than the previous one, and generally the best since Q4 2007. During the last four quarters a total of some 28,600 units were sold in the analyzed markets – 27% more than in 2009 and over 13% more than in 2008.

## Supply

According to REAS monitoring, in Q1 2011 in the six analyzed agglomerations, over 10,700 residential units were introduced to the market, i.e. 67% more than in Q1 2009 and 26% more than in the last quarter of 2010. In the last four quarters the number of units launched for sale exceeded 35,000 and was nearly 3,000 higher than in the four quarters of 2008.

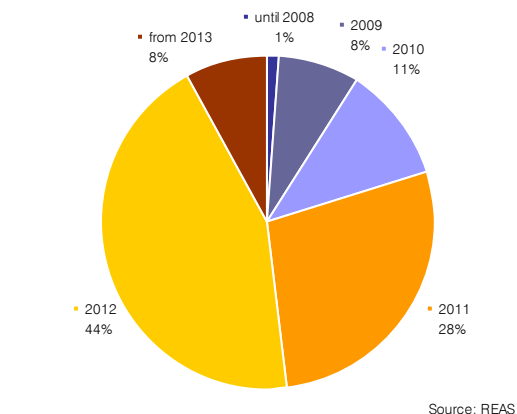
This phenomenon is also confirmed by Central Statistical Office's data. Although data from Q1 is insufficient for making definite year-long forecasts, as compared to the previous year an increase in the number of units under construction is observable. As compared to the analogous period of 2010, a 14.5% growth was recorded in Q1 in the "for sale and lease" category.

Despite rather good and regular sales, at the end of Q1 2011 the volume of the offer accumulated for the six agglomerations reached a level of nearly 42,000. The structure of the offer in terms of scheduled delivery changes from quarter to quarter in favor of a larger share of units under construction. At the end of Q1 2011 this group of units constituted over 77% of the offer, of which some 32% were scheduled for delivery in 2011, and over a half in 2012. For comparison, at the end of Q1 2010 the share of units under construction reached seventy percent of the offer.

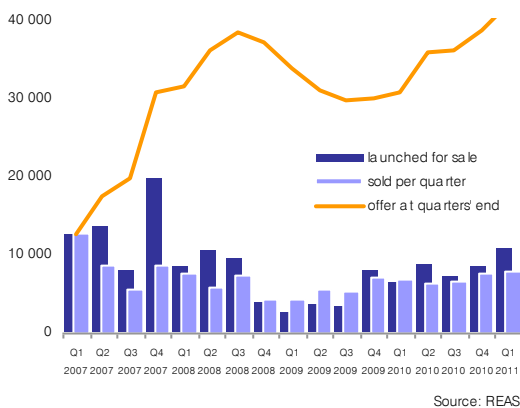
The number of completed unsold units increased slightly as compared to the previous quarter. At the end of March there were some 4,300 such units in Warsaw, a number similar as in several previous quarters. In total, residential markets in the six analyzed agglomerations offered slightly over 9,800 completed unsold units, which is 4% increase within a year.

By increasing the number of units launched to the market, developers attempt to simultaneously attract more prospective buyers and adjust the offer to their actual financial capabilities. The prices per square meter of newly launched residential units are in slow decline since several quarters, but equally important for the average price is the decreasing floor area of constructed units. It would seem that with stable financing conditions this was the factor which allowed for the gradual sales growth.

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)





At the same time, signals coming from companies still indicate that in 2011 developers are planning to launch to the market more new projects than in the previous year. In the face of the current surplus of supply over demand the prices are most likely to decrease again.

## Demand

Q1 2011 was the third subsequent quarter of growing sales, which increased by 4% as compared to Q4 2010, and by 14% as compared to Q1 2010. It should be noted that in terms of sales the first quarter of a year is as a rule the weakest, and this year an additional minor negative impact of the increase in VAT could be expected in the first months. From this perspective, sales at a level of 8,000 units in Q1 may be objectively evaluated as very good. Also, in the long term, stable or slowly growing sales constitute close-to-optimum conditions for planning development activity. Buyers making well considered purchases, banks granting loans following thorough analysis of creditworthiness as well as lack of phenomena and factors causing abrupt mood changes of market participants, create a situation in which development activity risks should also gradually diminish.

Sales intensity (i.e. the ratio of the number of units sold within a quarter and the volume of the offer at the beginning of that quarter) aggregated for the six analyzed markets reached 19% at the end of March and was one percentage point lower than in Q4 2010. Considering the volume of the offer, the sales rate was moderately good, although it needs to be stressed that 25% is the level of theoretical balance. The best result was recorded in Cracow (27%), while in the remaining cities indices ranged from 16% to 19%.

It is also worth to compare the current size of the offer and sales in the last four quarters. It varies from 136% for Krakow (i.e. the offer constitutes 1,36 of annual sales) to 169% for Wrocław, where the pressure on lowering prices will probably be the strongest.

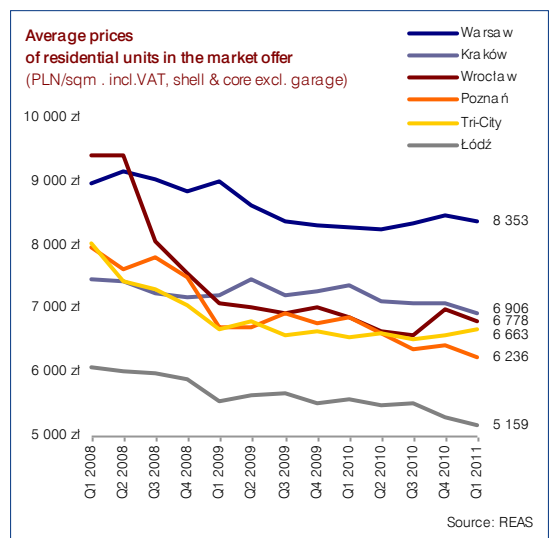
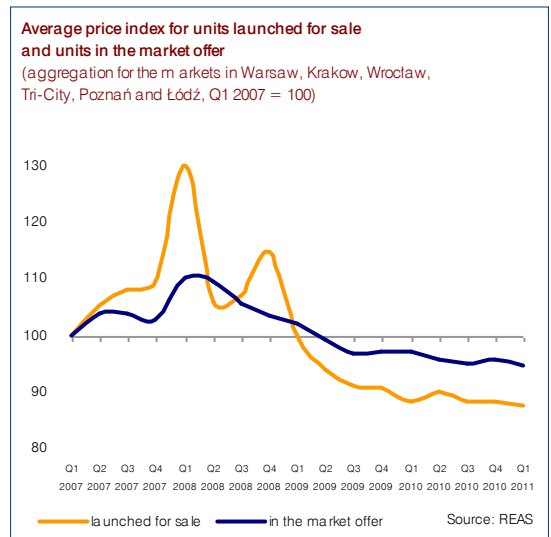
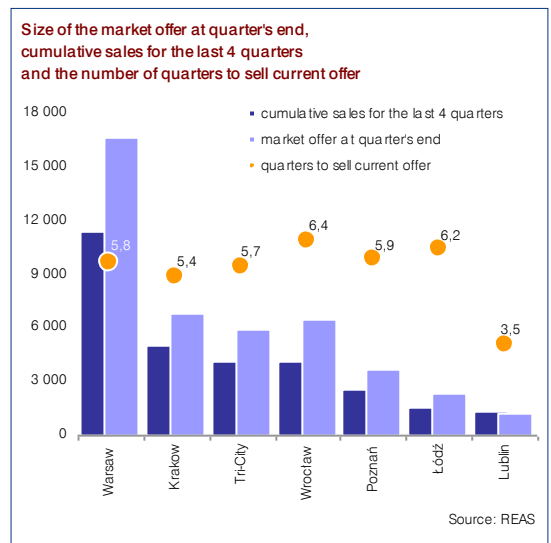
In the majority of cities, the total sales level during the four previous quarters was slightly higher than the long-term average sales for these markets, while in Wrocław it was significantly higher. In this respect Warsaw is the exception, since about 11,400 units found

buyers in this period, which is approximately 1,500 less than the long-term average transaction level for this market. Therefore it seems that, when compared to the other cities, Warsaw still has the highest growth potential.

Fundamental factors still favor the demand in five agglomerations, except for Łódź. People born in the second baby boom are graduating, entering the market and starting families or becoming independent. Metropolises continue to be an attractive target for young Poles from smaller towns and villages. Searching for employment abroad is lately becoming less popular, yet it is difficult to predict young Poles' reaction after the German labor market opens on 1 May.

What may cause anxiety, then? One of the most important lessons learned from the boom and crisis is that the market situation will be affected by psychological factors more than it has been in the past, while the level of trust between market participants remains relatively low. Meanwhile, despite regular high-level sales, the offer is still growing. If the trend continues in the following quarters, sales per average development project will continue to fall. In practice, this will mean greater diversification of situations in particular development companies: while remaining stable in some, sales will decrease considerably in others, threatening their financial liquidity.

It is important to remember that there are still companies in the market, which operate solely thanks to the fact that banks postponed placing on demand the loans granted to them in the boom period. Financial institutions are slowly losing their patience and it is probable that we may witness several spectacular bankruptcies. If combined with other negative factors, they could once again destroy the fragile trust between buyers, developers and banks, and result in a collapse of regular sales. What remains is to hope that those who have the greatest influence on building trust are aware of the fact and will avoid actions which might strain it. Wise adjustment of the volume and the character of supply to the actual means of prospective buyers are also essential, but it depends on the decisions of management boards of hundreds of development companies.





## 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 310 different clients, effectively supporting them in the process of project planning and implementation. The high quality of our services is proved, among others, by the fact that REAS has implemented more than five advisory projects for over half of our clients.

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 10,157 projects, including 3,149 projects on sale offering 75,740 flats and houses, as well as 893 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 partner of Jones Lang LaSalle**, the global leader in advisory services in the commercial real estate market.

Visit [www.reas.pl](http://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.

## Key REAS' Services

- Market Research & Analysis
- Market & Development Consultancy
- Property Valuations & Feasibility Studies
- Capital Raising
- Investment Sites Disposal & Acquisition
- Marketing & Sales Management

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