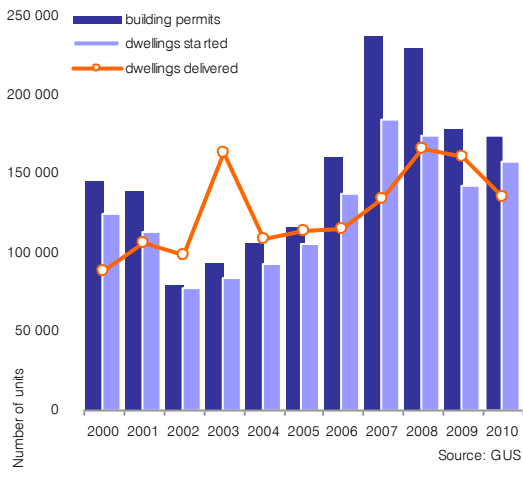


The year 2010 for the residential developers was a period of return to normality after the crisis of 2009.



Statistics of residential construction in Poland



A return to normality

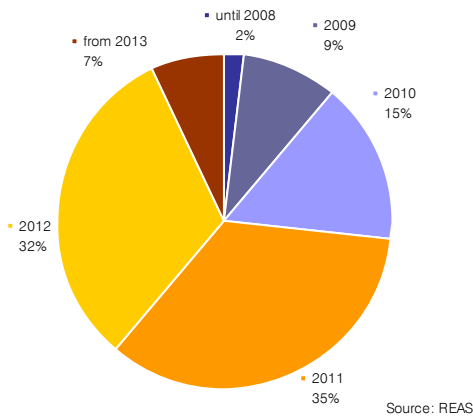
The year 2010 for the entities operating in the primary residential market was a period of return to normality after the crisis of 2009. This return was visible in all key market phenomena: mechanisms of granting mortgages, the scale of supply, as well as the demand demonstrating itself both in the behavior of purchasers and the transactions made.

In 2010 Polish economy has accelerated noticeably. Poland enters 2011 with a stabilized labor market and steadily growing income. Also the number of individually granted mortgage loans stabilized on a fairly high level, and the interest rates remain exceptionally low.

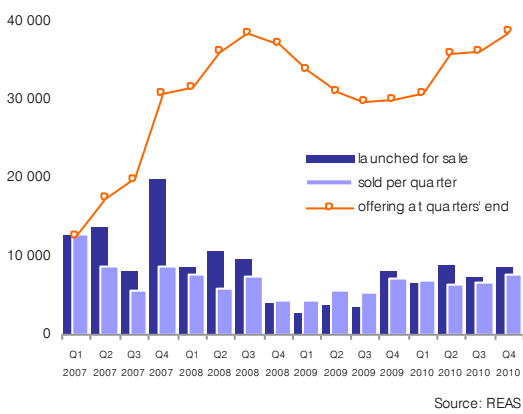
All major renowned Polish and foreign institutions forecast that in 2011 the Polish GDP will reach 3.5-4.3%. On the other hand, the country needs reforms to stop the growth of public debt, which is impossible unless the income growth of Poles is limited at least for some time. The government's actions are being carefully observed by financial markets, and the economic situation in EU states is much diversified.

The results of REAS market monitoring conducted at the end of Q4 2010 indicate a substantial growth of the offer in most cities, due to not only the launch of new projects, but also to the relaunching of the sales of many projects that have been temporarily suspended because of the crisis. As a consequence, the offer on six markets reached a level similar to the one from the H1 2008 boom period, and is 40% higher than a year ago. This occurred despite the fact that this quarter was the best since Q4 2007 regarding the number of units sold. During the four quarters of 2010 nearly 28,000 units in total were sold in the analyzed markets – 22% more than in 2009 and over 9% more than in 2008.

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 launched for sale 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

Initial Central Statistical Office (GUS) data also confirm that in 2010 Polish developers regained their optimism. After last year's breakdown, in the January-December 2010 period, this group of investors commenced the construction of 63,000 residential units, i.e. almost 42% more than in the analogous period of the previous year. The number of units for which developers were granted a building permit increased by 8% reaching 68,000 units. During the same period, housing cooperatives launched the construction of circa 4,600 units, which was an increase by 10% when compared to the result noted in the previous year.

In Q4 2010, in the six analyzed agglomerations, over 8,500 residential units were introduced to the market, bringing the year number of dwellings launched for sale to nearly 31,000, i.e. over 40% of the number of residential units started in that period by developers and housing cooperatives.

The statistics have also confirmed that during the currently ending economic cycle, Poland has already passed the peak level of completions. In 2010 a total of nearly 136,000 dwellings were delivered in Poland, over 15% less than in the analogous period of the previous year. Developers delivered 53,000 residential units during this period, 26% less than in 2009.

Despite rather good and regular sales, the accumulated volume of the offer for the six agglomerations reached a level of nearly 39,000 by the end of the year. Completed and unsold dwellings still constitute a significant part of the current offering. At the end of December there were nearly 4,200 such units in Warsaw, slightly less than in the previous quarter. In total, residential markets in the six agglomerations offered slightly over 9,400 completed and unsold units, and their number increased by 13% in 2010.

The structure of the offer in terms of scheduled delivery date is in the process of stabilization. At the end of 2010 units under construction constituted over 70% of the offer, of which more than a third were those in projects scheduled for delivery in 2011, and the remaining in 2012 and later. For comparison, at the beginning of 2009 the offer featured predominantly units scheduled for delivery during the year 2009 (they constituted 58% of all units offered), whereas completed units had only a 14% share in the market.

During the last four quarters, in the majority of cities – except for Wroclaw and Poznań – developers managed to successfully adjust the number of residential units launched to the market from new projects to the sales level. The offering growth was also caused by the resumption of the implementation and sales in projects which have been temporarily suspended, and by purchasers' withdrawals from previously concluded sales contracts. Undoubtedly, the restrictions in mortgage loan granting procedures placed by banks in 2010 in accordance with the recommendations of the banking supervision have influenced this phenomenon.



At the same time, the signals coming from the companies indicate that in 2011 developers are planning to launch more new projects to the market than in the previous year. In the face of the current surplus of supply over demand, it seems unreasonable to predict a price increase for the coming quarters.

Demand

The mortgage loan granting policy taken by banks was of great importance for buyers in 2010. On the one hand, it was characterized by a relatively high number of newly granted loans, which could be compared to the new loans of 2008, and on the other hand, by the return to the credit granting principles from before the real estate boom, i.e. the requirement of a significant own contribution, a realistic credit score, as well as a conservative approach towards the evaluation of the collateral value.

A number of factors favored the increase of new loans: steady, low interest rates, decreasing margins, and, above all, improving information on the economic growth and labor market stabilization. These factors also influenced the buyers' behavior. On the one hand, a visible growth of interest in purchase and a belief that the price will no longer drop were observed, and on the other, an adjustment of preferences and expectations to the buying power, which has decreased due to a drop in creditworthiness.

Sales intensity aggregated for the six analyzed markets, i.e. the ratio of a number of units sold within a quarter and the volume of the offer at the beginning of that quarter, reached 19.3% in Q4 2010. Considering the volume of the offer, the sales rate was rather good, although it needs to be stressed that 25% is the level of theoretical balance. In all of the largest markets, except for Łódź, the indices ranged from 19 to 22%, and in Łódź the index was 17%.

In most 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 only 10,600 units found buyers in the period, ca. 2,500 less than the long-term average transaction level for this market. Therefore it seems that, when compared to the other cities, the capital city still has the highest growth potential.

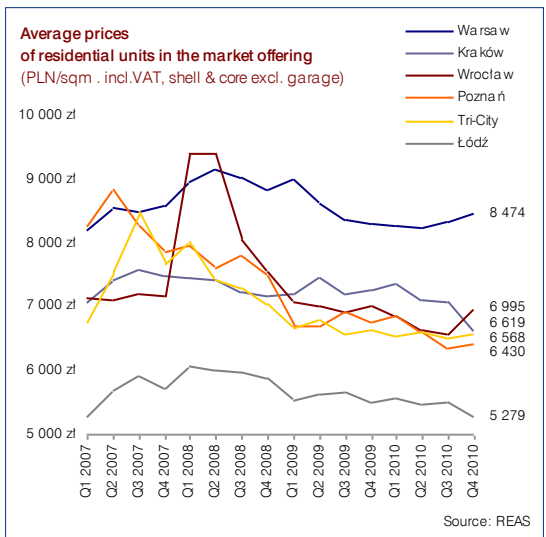
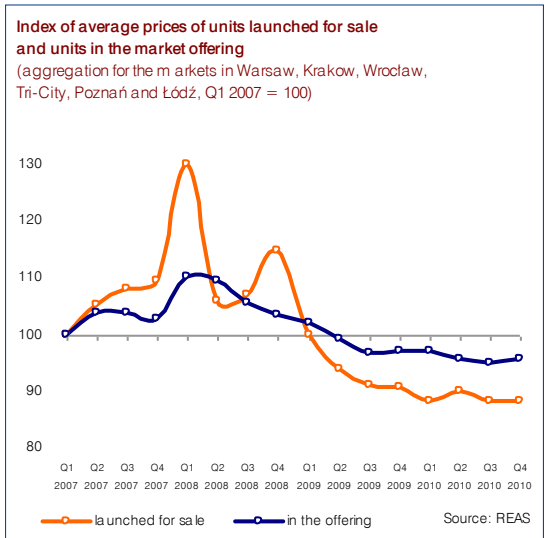
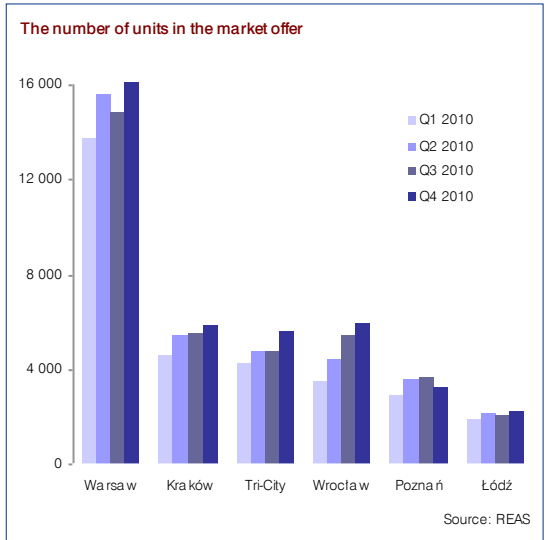
Psychological factors, which played a significant role in the fall of sales during the

recession, were neutral in 2010. In the first half of the year they played a role in a reduced demand, in the second half, however, their effect was positive. Therefore, it seems that the present sales level and intensity reflects well the conditions determined by current prices, income and mortgage availability. The average prices of newly commissioned residential 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 currently sold, while average prices of units remaining on offer are higher. Over the course of a year a 2-3% decline in average prices is observed, however, it needs to be stressed that the majority of projects launched to the market are those planned after the recession of Q4 2008.

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 difference between the new and the old offer: dwellings in new projects are significantly smaller in each size category, while the average price of completed units is usually higher than in the case of new units entered on the market. In the apartment segment, and especially when it comes to larger units with a high unit price, the supply still exceeds the demand. There are still no buyers who would be searching for such units for speculative purposes.

Developers would certainly be more optimistic if the prices and sales were expected to rise significantly in 2011. However, the future market situation is rather vague: it seems difficult to assume a price increase, and, with the growing offer, even the rather probable increase in the number of total sales may not necessarily translate to higher sales in various projects.

Additionally, mortgage interest rates are likely to rise, probably more than the incomes of borrowers. The banking supervision announces yet further restrictions for granting mortgages and the difficult financial situation of the national budget must result in higher taxes. It is obvious now that there will be no miraculous multiplication of EU funds. On the contrary, cuts of funds planned for the coming decade are more probable. This situation requires great flexibility, creativity and imagination combined with a realistic approach on the part of executives and owners of development companies. Chances are that 2011 will not be much easier for them than the previous year.





Selected REAS' Clients



Key REAS' Services

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

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 9,964 projects, including 3,061 projects on sale offering 72,000 flats and houses, as well as 878 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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