

reas on.point

H1 2010

Residential Markets in Prague and Bratislava

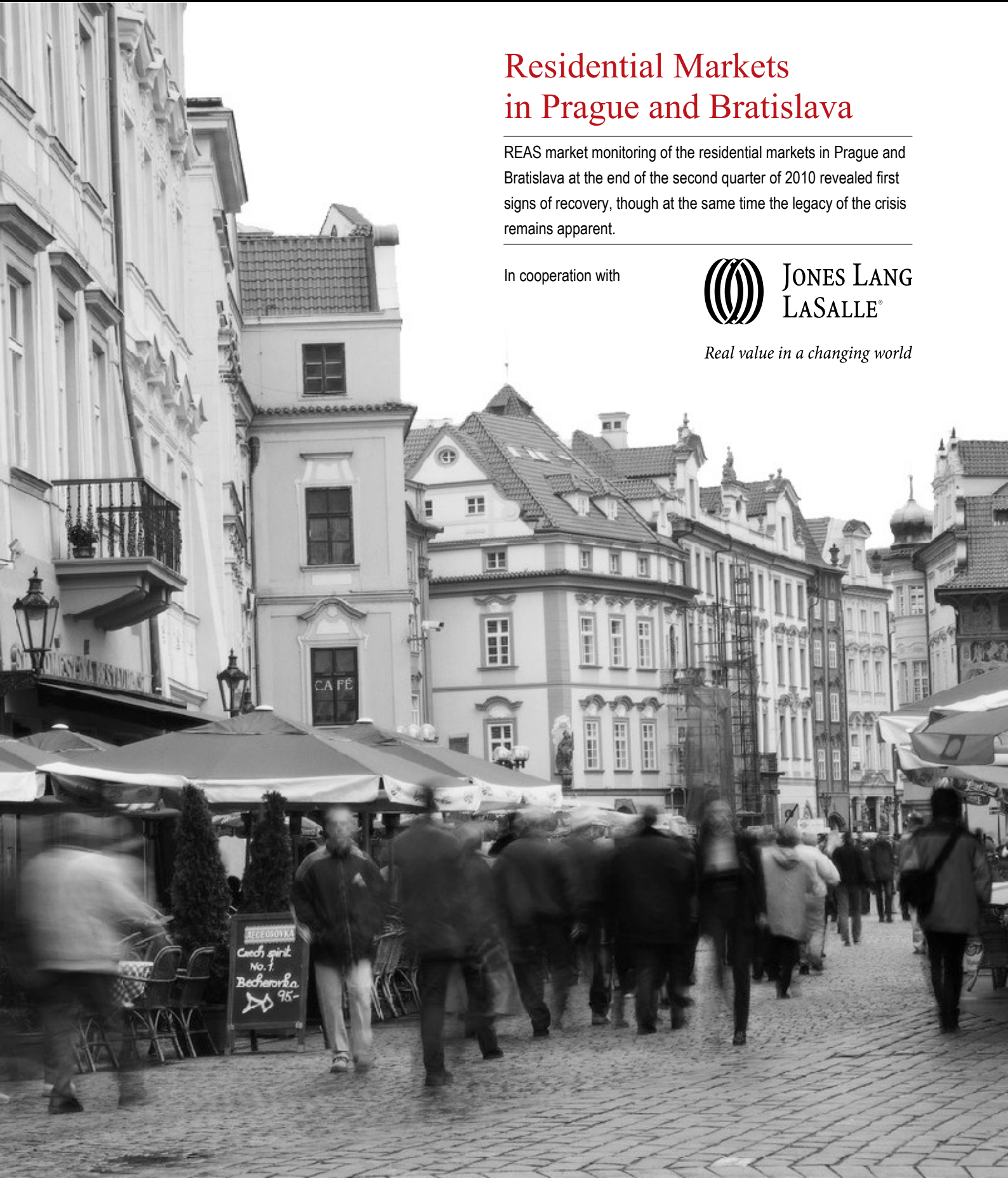
REAS market monitoring of the residential markets in Prague and Bratislava at the end of the second quarter of 2010 revealed first signs of recovery, though at the same time the legacy of the crisis remains apparent.

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CEE residential markets

One common feature across the region is that, in spite of partly significant price drops in the last couple of months, housing affordability is dramatically low. A rise in demand for homes may only be expected after a sustainable price correction, a growth in salaries and an improvement access to mortgage financing. While in some markets developers are already launching new projects based on a slight recovery in sales, others market remain characterized by a virtual standstill in sales. To be able to compare the market potential between different CEE markets, it will be important to follow the scale of the offer and new supply as well as the development in sales and pricing in each market.

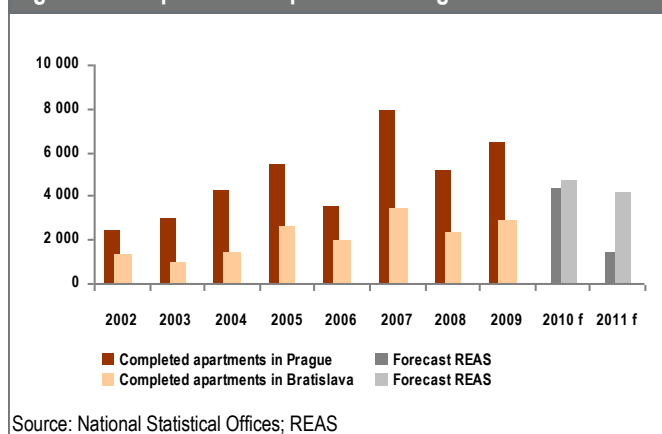
Prague residential market

The views of market players on the situation of Prague's residential market vary greatly. While many market participants were announcing the first signals of market recovery in H1 2010, an equally high number, particularly developers, were either very cautious with such statements or openly complaining about a continuation of the sales slowdown. The difference in opinion is explainable, as it is certainly heavily influenced by individual sales result of particular projects. Overall however, a modest optimism can be felt, which is caused by the macro-economic recovery – visible in a return to positive GDP growth – and an improvement in the mortgage market.

Construction statistics

During the last 5 years, between 5,200-9,400 housing units were completed in Prague annually. In 2009, about 7,400 dwellings were put into use. Prague is hence one of the largest markets in the CEE region, ranking in 3rd or 4th place, depending on the year – behind Warsaw and Budapest and on a similar scale to Krakow. The largest part of the housing construction in Prague concentrates in the multi-family market segment, which reached a share of 80%, i.e. 5,925 units in 2009. The share of Prague with its satellite cities and

Figure 1: Completions of apartments Prague vs. Bratislava

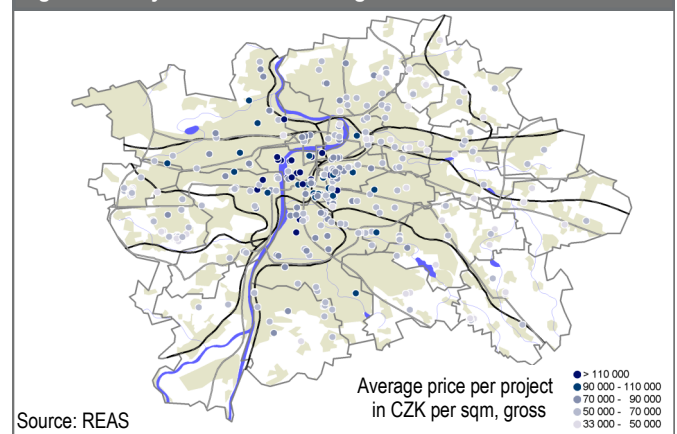


other suburban areas comprises approximately 50% of all multi-family residential units built in the country.

Supply and market offer

The prevailing part of new housing supply is provided by real estate developers. However, the crisis had a visible impact on the sector and the number of units planned for completion by developers in 2010 and 2011 will be fairly lower than the output during the last three years. Furthermore, there is currently only a small number of new projects launched to the market. REAS market monitoring showed a total of 400 multi-family projects which constituted the market offer in Q2 2010, i.e. comprised units offered for sale. More than one fourth of the current offer consists of units which remain vacant in completed projects.

Figure 2: Projects for sale in Prague in Q2 2010



Demand

As a result of eased access to mortgage financing and considerable price drops in many projects, the number of transactions on Prague's primary residential market started to increase during H1 2010, from its bottom in 2009. However, the number of sales is only gradually increasing and not evenly among all projects. Developments which were launched for sale on the market at the end of the boom period or later typically still show mediocre sales levels. Furthermore, off-plan sales are difficult, too. A warning signal for the market are the pre-sale rates of units planned to be completed in the two halves of 2011.

Pricing

As of Q2 2010 the average price for dwellings in the primary market was back at the level from the beginning of 2007. The Prague quarterly price index, with its base quarter in Q4 2006, shows that prices returned to an index value equal to 110, dropping by more than 25 percent points. The current price distribution shows a positively (right) skewed spread, meaning that there is a prevalence of high priced offers. However, majority of the market offers belong to the lower-middle and low-end market segments. For instance, roughly half of the total offer concentrates in the price range between CZK

50,000 and 75,000 per sqm. Another noteworthy observation in pricing can be made by analysing the geographical distribution of projects within Prague and their average pricing on the map.

Bratislava residential market

In contrast to Prague, almost all participants of Bratislava's residential market were announcing the first signs of the market's recovery before the end of the first half of the year 2010. This widespread optimism was only partly based on the macro-economic recovery, visible in a return to positive GDP growth, but rather on improved sales data on the residential market. The latter became visible after banks began releasing data about the growing demand for mortgages, from their rock bottom point in 2009, and followed by the developers' announcements regarding interest in their projects.

Construction statistics

Considering the whole construction output, there were between 2,500-4,000 units completed in Bratislava annually during the last 5 years. In 2009, 3,741 dwellings were put into use in the Slovak capital city. Taking into account only the multi-family segment, the number of completed dwellings varied between 920 in 2003 to its current peak of 3,384 in 2007. In spite of the fact that the residential market of Bratislava is relatively small compared to other regional cities, it represents the country's largest market and, given the capital city functions of Bratislava, is subject to stronger demand pressure than other areas.

Supply and market offer

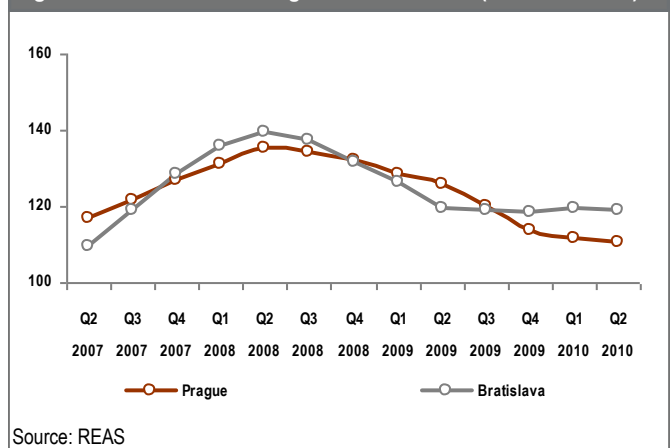
Despite Bratislava's size, we expect the number of dwellings to be completed by developers in 2010 to be similar as in Prague. Obviously, this will be a consequence of the construction boom in the earlier years and indicates the investment optimism at that time. The level of construction output announced by developers for completion in 2011 will be significantly lower. New developments are in fact hampered at the moment, both by restricted access to construc-

tion loans and by the fact that most developers concentrate on selling the projects which are already on the market. REAS market monitoring in Q2 2010 found about 140 multi-family projects with dwellings for sale by developers in Bratislava. More than 27% of the dwellings on offer are units in completed investments, of which the majority is delivered in almost turn-key standard, though shell-and-core standard has definitely regained some share of the market.

Demand

Currently the primary residential market in Bratislava is a buyer's market. Local demand had been insufficient to absorb the higher supply in the recent years, even with the assistance of foreign and speculative investors, who have long left the scene. There was a visible tendency from a part of the developers to adjust their products to the changed market situation, mainly by means of direct or indirect discounts. Price negotiations are still possible in the majority of projects on the market, resulting in a lower real transaction price compared to the initial asking price. Besides price corrections, REAS did not observe that majority of developers would in any way attempt to tackle the other problem of the current market offer: weak project-mixes and floor plan designs.

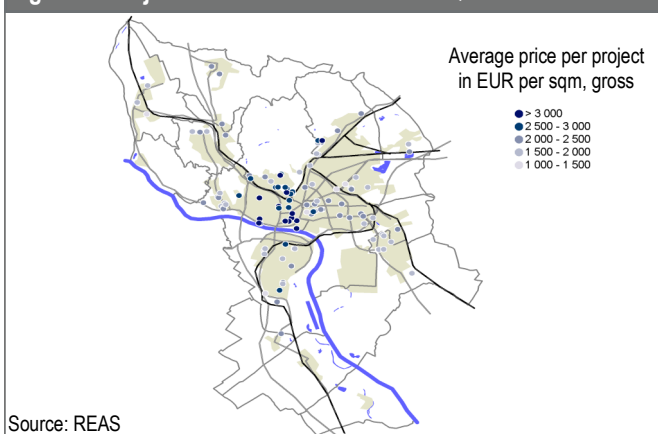
Figure 4: Price indices Prague vs. Bratislava (Q4 2006 = 100)



Pricing

Bratislava recorded the highest prices in the Slovak Republic, with prices about 30-40% higher than the national average. In fact, Q2 2010 market monitoring discovered the average price in Bratislava's primary market to be nominally even higher than the one in Prague. The distribution of prices of all units available for sale looks entirely different in Bratislava though, with a much broader range of units at low to mid-price levels and a noticeable upper-middle price offer. There is an apparent overlap in pricing between different quality segments which indicates a maladjustment between the value of many projects and their asking price. Besides a few exceptions, a look at the map shows an ideal-type price distribution in geographical terms, with the high-priced offers concentrating in the centre and decreasing price levels radiating to the periphery.

Figure 3: Projects for sale in Bratislava in Q2 2010



The report has been prepared by REAS in cooperation with Jones Lang LaSalle

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. Based in Poland, REAS is expanding its services to clients across the CEE region since 2006. REAS commenced a continuous monitoring of the Prague and Bratislava primary residential markets, so far accumulating data on approximately 800 projects in a GIS-based database system. 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. For further information, please visit our Web site, www.reas.pl.

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REAS and Jones Lang LaSalle offer the following integrated services in commercial and residential real estate in the Czech Republic and Slovakia:

- Market monitoring, research and analysis in CEE housing markets
- Product and development consultancy
- Highest & Best Use analysis and feasibility studies
- Development land appraisals and sales
- New housing units sales and related services
- Individual sales of apartments, houses, apartment buildings and hotels

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