

# Living Residential Warsaw

BEGINNING 2007

“ Record growth of apartment prices in the second half of 2006 ”

“ Continuing demand in excess of supply. ”

## H2 2006 AT A GLANCE

Demand	↑
Supply	↓
Prices	↑
Interest Rates	←

## MARKET OVERVIEW

In the second half of 2006, the residential market in Warsaw grew at a great pace. A dynamic increase in apartment prices was reported and transactions involving the purchase of land for residential development were concluded at record levels.

A number of factors contributed to this trend. Most notably strong domestic demand and demand on the part of foreign investors. The demand for new apartments continued to exceed supply, which remained very low throughout 2006. According to the preliminary data published by the General Statistical Office (GUS), only 13 543 residential units were completed in Warsaw in 2006, representing a 6.2% decline compared to 2005.

A further factor to affect the prices of new apartments was a notable increase in construction costs, primarily fuelled by a rise in both the cost of building materials and construction workers' salaries. The conversion replacement cost (i.e. construction cost) for one square meter of usable area of residential buildings in Warsaw announced by the Mazowsze Provincial Governor stood at PLN 4 674 (€ 1 188) in Q1 2007, compared to PLN 4 076 (€ 1 036) in Q2 2006.

Dynamic price growth was further fuelled by high volumes of domestic and foreign investment activity. Spanish and Irish investors were the most prominent players in the Polish residential market in 2006.

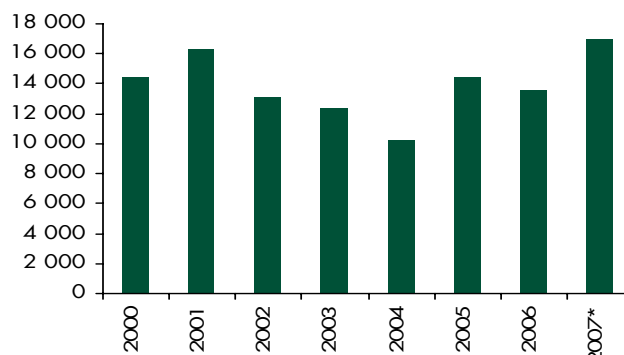
Demand was also stimulated by readily available housing loans. According to the Polish Bank Association, the value of new mortgage loans granted to individuals in 2006 was PLN 44.43 bln.

In January 2007, over 34 000 apartments (13% more than in Q2 2006) were under construction in some 230 housing projects. The districts of Białołęka, Bemowo, Mokotów and Wilanów witnessed the most development activity in early January 2007, where the largest number of apartments were under construction.

The weighted average gross price of a new apartment in Warsaw in January 2007 was PLN 7 900 (€ 2 009) per sq m.

According to GUS data, the average area of an apartment in Warsaw, completed by a developer in 2006, amounted to 68.1 sq m. Considering the weighted average price per square meter of a new apartment, the cost of purchasing an apartment of average size in Warsaw approached PLN 538 000 (€ 136 826) gross.

RESIDENTIAL UNITS COMPLETED IN WARSAW, 2000-2007



Source: GUS, CB Richard Ellis

\* Forecast

## DEMAND AND SUPPLY

The number of residential units in Warsaw stands at ca. 767 000\*. The majority of this stock (roughly 352 300 units) has been constructed by cooperatives, followed by developers and individuals (over 277 200 units), municipalities/communes (almost 104 900 units) and companies (31 600).

In 2007, we can expect to see an increase in supply, with the scheduled completion of some 17 000 new apartments. Of this figure, 15% will be located in Bemowo, 15% in Mokotów and 12.5% in Białoleka. These figures may vary and will be affected by the timing of project execution by developers and housing cooperatives.

According to preliminary GUS data, only 13 543 apartments, i.e. 6.2% less than in 2005, were completed in Warsaw in 2006. A dramatic decline (13%) was reported in the contribution of completed apartments by developers, who delivered a mere 9 198 apartments. This decline was partly due to delays in the execution of projects, whose completion dates were originally scheduled for year end 2006.

In 2006, demand was additionally driven by changes in the availability of foreign currency mortgage loans which took effect in July 2006. Uncertainty associated with the level of VAT tax to be levied on new apartments also persisted, encouraging buyers to make purchases.

## PRICES

Apartment prices in Warsaw vary significantly, depending on their location and quality. In January 2007, prices of new apartments ranged from PLN 4 000 (€ 1 017) per sq m in Wesoła to almost PLN 37 450 (€ 9 525) per sq m in Śródmieście (City Centre).

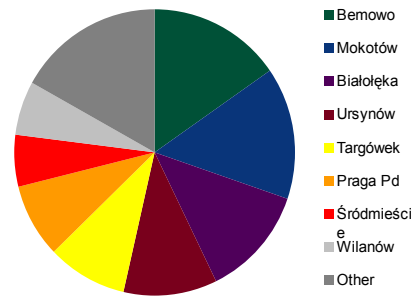
In January 2007, the average weighted gross price of a new apartment in Warsaw amounted to PLN 7 900 (€ 2 009) per sq m and was 41% higher than in the first half of 2006. The highest level of growth was recorded in Śródmieście where prices of new apartments doubled. This trend was mainly attributable to the initiation of a number of exclusive apartment projects in Warsaw's city centre.

Other districts documenting the highest levels of growth in new apartment prices included Wawer (64%), Praga Północ (63%) and Bemowo (55%).

Growth in apartment prices in the district of Wawer is an example of the narrowing gap between the prices commanded for apartments in the peripheral districts of Warsaw and the average prices for apartments in wider Warsaw.

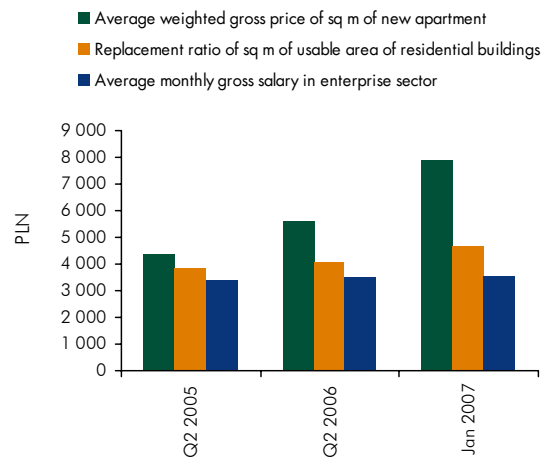
Rising apartment prices in the district of Praga Północ were primarily attributable to the growing popularity of the district.

## FORECAST SUPPLY OF RESIDENTIAL UNITS IN WARSAW IN 2007 BY DISTRICT (%)



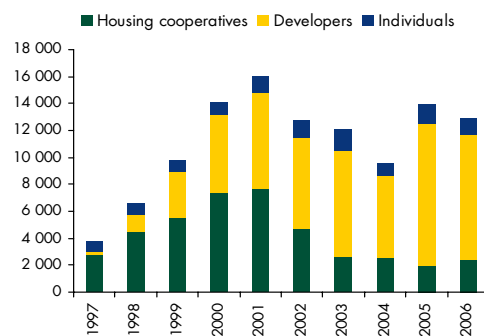
Source: CB Richard Ellis

## AVERAGE PRICE OF ONE SQ M OF A NEW APARTMENT, SALARY LEVELS AND COST OF CONSTRUCTION OF AN APARTMENT IN WARSAW



Source: CB Richard Ellis, GUS, Office of Mazowsze Governor

## RESIDENTIAL UNITS COMPLETED IN WARSAW, 1997-2006



Source: GUS

\* GUS data

## PRICES (cont.)

Meanwhile, sharp price growth in Bemowo can be justified by the increasing appeal of the district among potential buyers, owing mainly to the planned public transport and road improvements – the envisaged metro line and ring road. The situation in Bemowo can be compared to that of Ursynów where prices for residential units situated along the metro line began to grow rapidly.

Over the analysed period, the lowest increases were noted in the districts of Żoliborz (10%), Wesoła (19%) and Wilanów (20%).

In terms of average weighted selling prices of new residential units, the city centre district of Śródmieście remains the most expensive, where the average weighted gross price of a new apartment amounted to PLN 18 360 (€4 669) per sq m in January 2007. City Centre prices are followed by Mokotów – PLN 10 090 (€ 2 566) per sq m and Wola – PLN 8 820 (€ 2 243) per sq m.

Meanwhile, the least expensive new apartments could be purchased in the districts of Wesoła – PLN 4 400 (€ 1 119) per sq m, Włochy – PLN 5 440 (€ 1 383) per sq m and Białołęka where the weighted average price stood at PLN 5 680 (€ 1 444) per sq m.

In the future, the price of land designed for residential housing development will have a major impact on apartment prices. Price growth records from the first half of 2006, which ranged from PLN 3 000 to 3 500 (€762 to 890) per sq m were topped by record transactions in the second half of the year. Large plots for residential housing were purchased at between PLN 7 000 (€ 1 780) to PLN 13 000 (€ 3 306) per sq m.

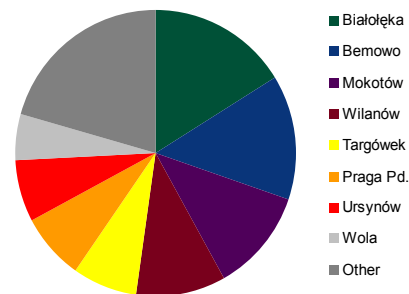
## HOUSING LOAN MARKET

According to data published by the Polish Bank Association, there were 300 527 new mortgage loans granted to individuals in 2006 totalling PLN 44.43 bln. Mortgage loans denominated in Swiss francs accounted for some 48% of the total amount of mortgage loans granted and those denominated in Polish zloties made up 40%. The remaining loans were offered in Euro or US dollars.

The average value of a mortgage loan amounted to PLN 137 000 in Q1 2006 and grew to PLN 164 300 by the end of Q4 2006.

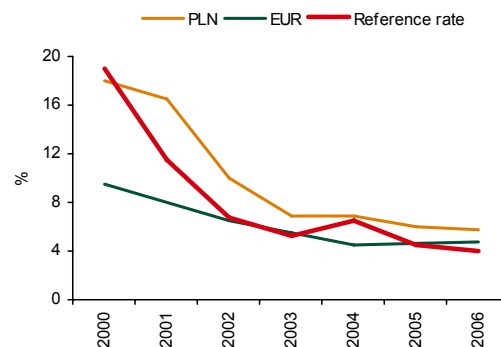
The Polish Bank Association estimates that in 2007 the value of newly granted mortgage loans will reach PLN 54 bln, representing a 22% increase in relation to 2006.

## RESIDENTIAL UNITS UNDER CONSTRUCTION IN WARSAW, BY DISTRICT IN JANUARY 2007 (%)



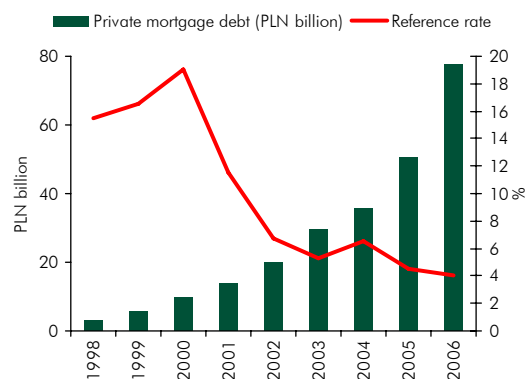
Source: CB Richard Ellis

## AVERAGE MORTGAGE INTEREST RATES AND NBP REFERENCE INTEREST RATE



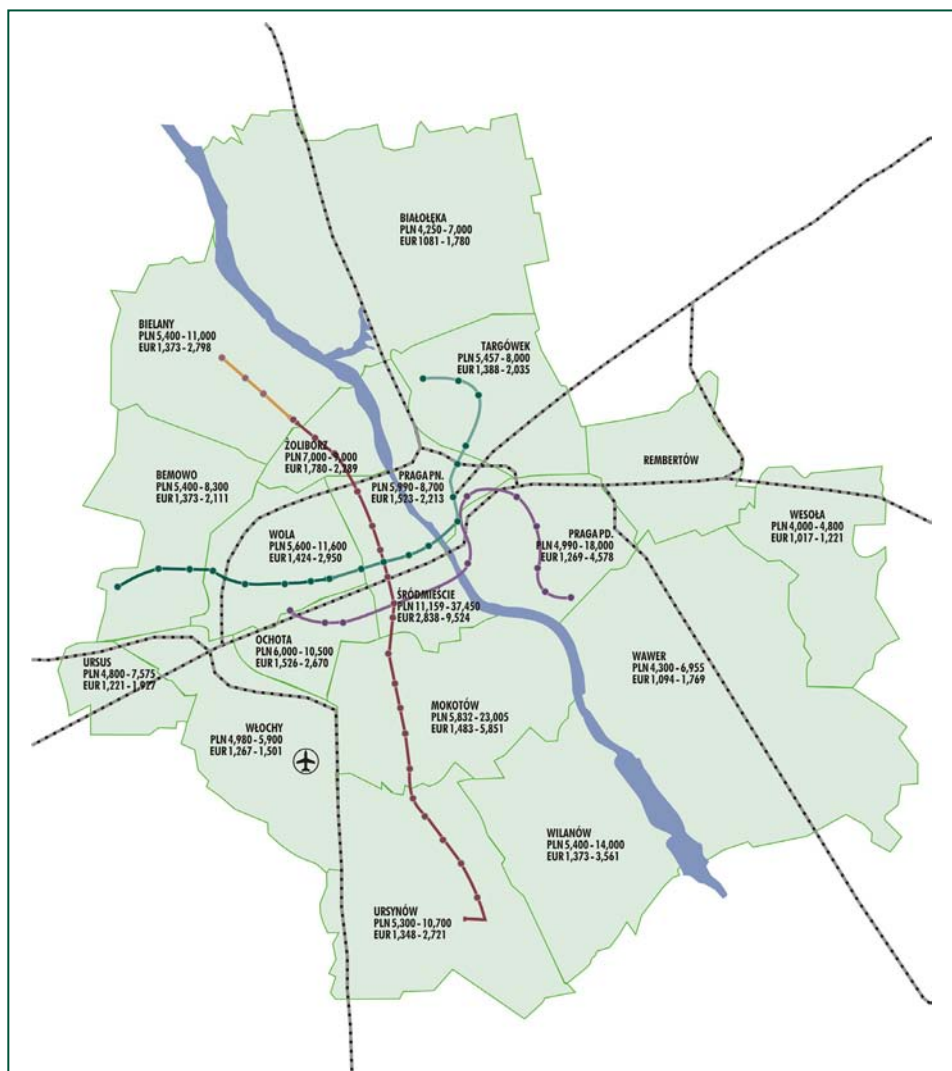
Source: The Mortgage Credit Foundation/ National Bank of Poland

## CUMULATIVE GROWTH OF PRIVATE MORTGAGE DEBT



Source: National Bank of Poland

**WARSAW RESIDENTIAL MARKET MAP, MINIMUM AND MAXIMUM GROSS PRICES FOR NEW APARTMENTS (PLN/EUR/sq m) GROSS – JANUARY 2007**



**Legend**

- Planned stages of metro line no. 2
- Planned metro line no. 3
- Existing Metro line no. 1
- Section of metro line no. 1 under construction
- Commuter train lines
- District boundaries

\* For EUR price calculation purposes, the NBP exchange rate was used obtaining on 31 January 2007, EUR 1.00 = PLN 3.9320

Source: CB Richard Ellis

**For more information, please contact:**

**Mikołaj Martynuska**  
 Director – Residential Department  
 mikolaj.martynuska@cbre.com  
 T: +48 22 544 8029

**Maria Hahn**  
 Research and Marketing Coordinator,  
 Residential Department  
 maria.hahn@cbre.com  
 T: +48 22 544 8004

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Kampala (256) 41 345165	

**CB Richard Ellis Polska**  
 Rondo ONZ 1  
 00-124 Warszawa  
 Tel +48 22 544 8000  
 Fax +48 22 544 8001

