

# Living Residential Warsaw

SPRING 2008

“Stabilisation of prices”

“Demand and sale slowdown”

“More incentives offered by developers”

## MARKET OVERVIEW

The last quarter of 2007 did not show a radical change on the residential market in Warsaw. Some trends present already in autumn became more visible in December.

The Warsaw market has been growing very fast for the last three years. Last year may be considered very successful in terms of the number of flats delivered to the market. Already in November it exceeded the 2006 total figure (14,000). Prices stabilized at a level rather unattractive for speculative investors, hence a cut back on such kind of investments. The growing interest rate (by 100 basis points) also influenced the demand slowdown.

More restrictive credit policy, introduction of the S recommendation as well as the credit crunch and its implications for the national economy impacted investors who have finally postponed their buying decisions. Moreover, clients were able to see price decrease in districts such as Wawer, where the price dropped to EUR 1,280/sqm (PLN 4,600) thus they expected further reductions. This caused a slowdown in sales on the residential market within the last few months.

Some of the developers responded to this new situation by offering incentives such as more advantageous payments schedule, abstraction of VAT cost from the overall price, etc.





Others (the minority) decided to postpone the commencement of sale expecting the market to show signs of improvement soon.

For an average monthly wage in December 2007, 0.47 sq m of an average flat could be bought in Warsaw last year. For comparison, in Madrid it was 0.45 sq m at the same time.

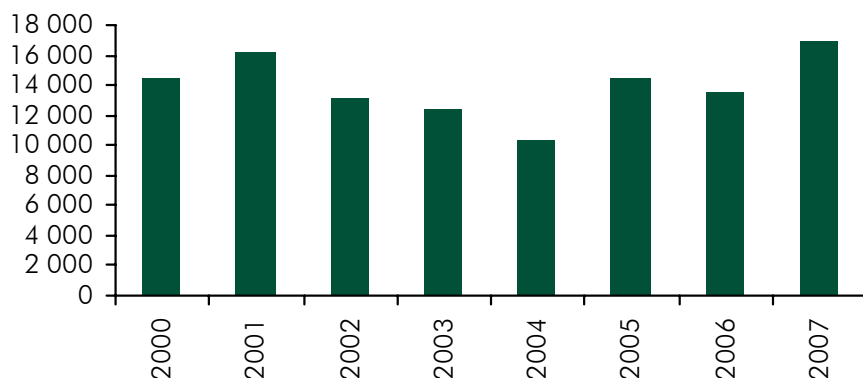
In Q4 2007 the unchallenged leader in terms of a number of flats sold in Warsaw was the Polish J.W.Construction. Other active developers were Dom Development, Budimex Nieruchomosci, Atlas Estates and the French Bouygues Immobilier. The overall share of these investors in the market reached over 35%.

The most expensive - EUR 11,222/sq m (PLN 40,500) and the most exclusive apartments were offered by Orco Property Group in the City Centre (Zlota 44, Mokotowska 59). Developer House by contrast proposed the lowest prices in Wawer - EUR 1,280/sq m (PLN 4,600).

## 2008 OUTLOOK

- Demand 
- Supply 
- Prices 
- Interest Rates 

## APARTMENTS DELIVERED TO THE MARKET



Source: GUS, CB Richard Ellis

## DEMAND & SUPPLY

Currently the number of residential units in Warsaw stays at 781,000, the majority of which (45%) were constructed by housing cooperatives, over 37% by developers and individuals, municipalities - around 13% and companies - 4%.

The number of residential units under construction stood at 35,300 at the end of the year. The highest number of apartments under construction in December was registered in Bialoleka (19%), Bemowo (14%), Wola (12%) and in Wilanow (9%) districts.

In 2006 14,000 units were delivered to the Warsaw residential market. According to the preliminary data in 2007 this number reached 16,000. The growth amounted to 15% in comparison with the previous year. Most projects have been accomplished in Bialoleka (17%), Mokotow (15%) and in Ursynow (13%) districts.

## PRICES

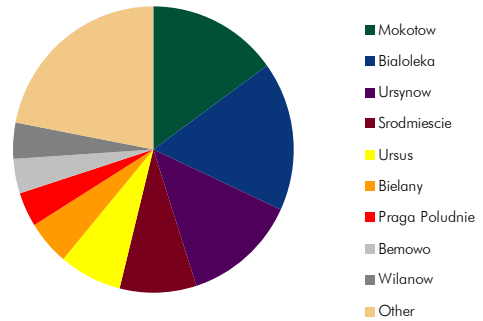
Apartment prices in Warsaw vary significantly, depending on their location and quality. In December 2007 gross prices of new apartments ranged from EUR 1,280/ sq m (PLN 4,600) in Wawer district to EUR 11,200/ sq m (PLN 40,500) in Srodmiescie (City Centre).

In December 2007, the average weighted gross price of a new apartment in Warsaw amounted to EUR 2,500/sq m, 13.7% higher than in December 2006 and only 2% higher than in Q3 2007. Despite the stabilisation of prices, significant growth of prices was observed in certain districts. The highest level was recorded in the Wlochy district where prices of new residential units grew by 45% (y-o-y). This was caused by new projects appearing in the district. Other districts with significant growth were: Zoliborz (30%), Praga Poludnie (28.9%) and Ochota (28.7%).

In the Ochota district, rising apartment prices were attributable to the commercialization of large residential projects in which the gross prices reached a high level of EUR 4,444/ sq m (PLN 16,000). A similar situation took place in the Praga Poludnie district, where large, exclusive projects were delivered to the market.

In this case the growth is also an example of price levelling in districts located near the City Centre.

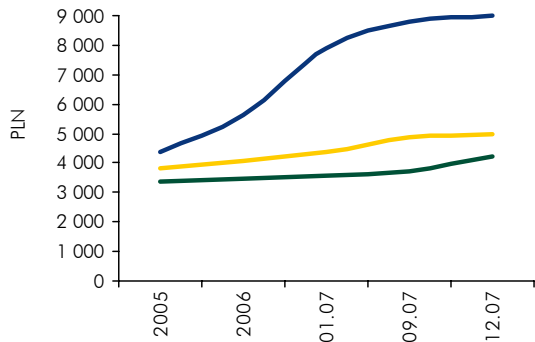
## SUPPLY OF RESIDENTIAL UNITS BY DISTRICT IN 2007 (%)



Source: CB Richard Ellis, GUS

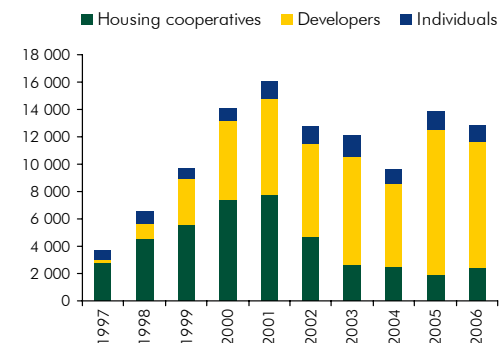
## AVERAGE PRICE OF A NEW APARTMENT, COST OF CONSTRUCTION AND SALARY IN WARSAW

- Average weighted gross price of sq m of a new apartment
- Replacement ratio of one sq m of usable area in residential buildings
- Average monthly gross salary in enterprise sector



Source: CB Richard Ellis, GUS, Mazowieckie Voivodship Hall

## RESIDENTIAL UNITS DELIVERED TO THE MARKET



Source: GUS

In terms of average weighted selling prices of new residential units, as of December 2007, the City Centre district (Srodmiescie) remained the most expensive, with average weighted gross prices amounting to EUR 5,400/sq m (PLN 19,430). Following the City Centre is the district of Mokotow – EUR 3,000/sq m (PLN 11,100) and Ochota – EUR 3,000/sq m (PLN 11,000).

However, the cheapest new apartments were available in Wawer – EUR 1,700/ sq m (PLN 6,200), Bialoleka and Tarchomin with the price at EUR 1,700/sq m (PLN 6,200) in both districts.

Developer’s financial standings will have a strong influence on possible price decreases. Due to constantly rising prices of building materials, we should not expect revolutionary changes.

**MORTGAGE MARKET**

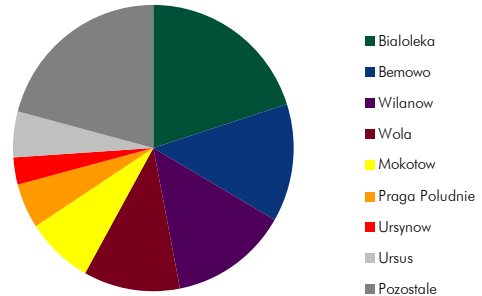
According to the National Bank of Poland (NBP), at the beginning of December 2007 the cumulated volume of mortgage loans exceeded EUR 32 billion (PLN 115 billion). The rise of the reference rate and, as a consequence, rise in interest rates on mortgage loans slowed down the sale and resulted in “wait and see” situation.

Until the end of November 2007, the growth dynamics of mortgage loans remained at a similar level to the previous quarter. Inconsiderable growth was granted mainly due to a stable economic situation in Poland (despite the global “credit crunch”) and overall improvement in the standard of living in Poland. The average monthly gross remuneration in enterprise sector in Warsaw 2007 stood at EUR 1,170/sq m (PLN 4,206) in December and was 18% higher than in January 2007. At the same time the unemployment rate decreased to 3% in December 2007.

However, the demand for housing loans has slowed down during 2007. Most of the potential buyers are awaiting price decreases. Bank specialists, however, predict recovery in the economic situation in the early spring. It is most likely that 2008 will be weaker than record – breaking 2007 in terms of the amount of granted housing loans. Inflation rate, remuneration growth and interest rate will determine the demand for housing loans.

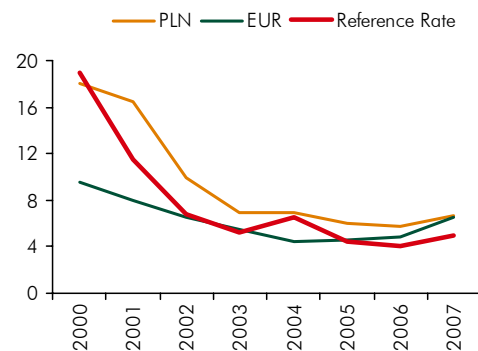
According to the National Bank of Poland (NBP), the interest rate of housing loans stood at 6.9% for loans in PLN, 6.2% for loans in USD and 4.6% for loans in CHF.

**RESIDENTIAL UNITS UNDER CONSTRUCTION IN WARSAW, BY DISTRICT IN DECEMBER 2007 (%)**



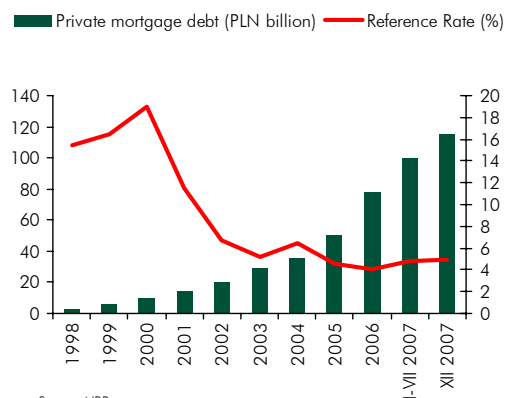
Source: CB Richard Ellis

**AVERAGE INTEREST RATE ON MORTGAGE LOANS & REFERENCE RATE (%)**



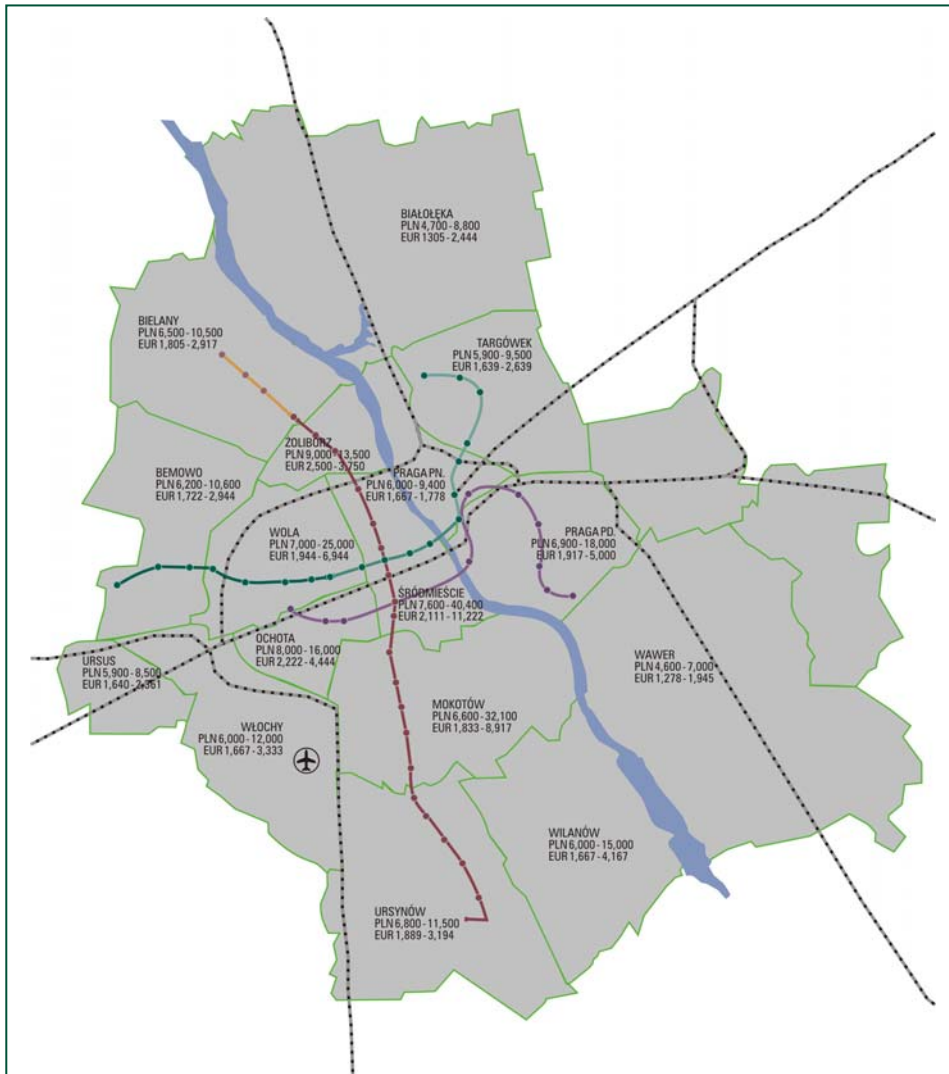
Source: NBP

**CUMULATIVE GROWTH OF PRIVATE MORTGAGE DEBT**



Source: NBP

**WARSAW RESIDENTIAL MAP, MINIMUM AND MAXIMUM GROSS PRICES OF THE NEW APARTMENTS IN (PLN / EUR / sq m) – DEC 2007**



**The Legend**

- Subway 2 line - planned
- Subway 3 line – planned
- Existing subway line no. 1
- Subway line no. 1- section under construction
- Fast City Railway
- Districts border

\* Currency in EUR following the NBP exchange rate from 31 December 2007, 1 EUR = 3,6042 PLN

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