

Warsaw Residential Update

Ten Key Factors Point to Long-Term Growth

Economy

The economic recovery was in full swing in 2004, with GDP growth of 5.4% beating expectations. Economists forecast that GDP should grow by 4.5% in 2005. Although national unemployment remains above 19%, there is virtual full employment in Warsaw with the official jobless rate at 6.5%, and probably much lower considering the shadow economy. The National Bank of Poland lending rate started 2005 at 6.5%. The large influx of Foreign Direct Investment drove the Polish zloty up 15% against the euro in 2004. Poland joined the EU in 2004 and is widely expected to join the Euro currency in five to seven years.

Outlook

- There have never been so many signals for growth in residential real estate prices. Ten key factors point to long-term growth:
- All-time low interest rates
- Growing populations in capital cities
- Deteriorating existing housing stock
- Strong GDP growth
- Strong real wage growth
- Low unemployment in capital cities
- "EU-phoria" - strong consumer confidence after joining EU
- Future introduction of the Euro
- Reduced barriers to entry
- Strong FDI growth

Prices

The last two years saw residential prices rise more than 10% per year. The average transaction price on the secondary market rose from 3,700 PLN (925 EUR) per sqm to 4,030 PLN (1,000 EUR) per sqm last year, while actual sale prices in the city centre rose to an average of 6,600 PLN (1,650 EUR) per sqm. Such properties, purchased from private owners, are sold without any VAT.

New flats from developers command a higher price. Additionally, the price of new flats or homes from developers includes 7% VAT, and are sold prime shell, with the buyer finishing it out at 600 to 1,500 PLN (150-375 EUR) per sqm.

The highest prices for new developments are in the city centre, which has a real lack of new product. The price of new build flats in the city centre range from 5,900 PLN per sqm to as high as 16,000 PLN per sqm (1,475 to 4,000 EUR). To this price count on adding the additional cost of fit-out (150-375 EUR per sqm).

In Mokotow and Zoliborz, the greener areas just south and north of the centre, prices for new flats (prime shell) range from 5,000 to 8,000 PLN (1,250 to 2,000 EUR) per sqm, with some luxury flats topping 2,500 EUR per sqm. In Wilanow, farther to the south by the royal palace, new flats sell for 4,000 to 8,000 PLN (1,000 to 2,000 EUR) per sqm.

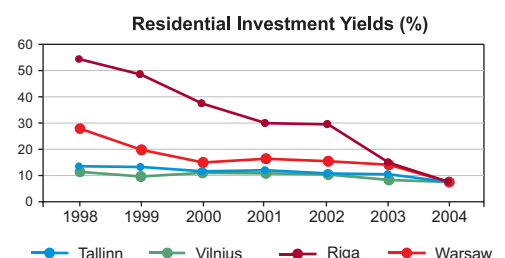
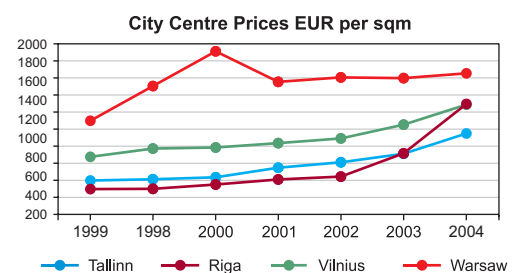
The cheapest new apartments are in the eastern suburban districts of Bialoleka, Wesola, and Rembertow, and average at 3,000 PLN (750 EUR) per sqm.



New apartment building in a quiet area of Praga Południe more and more popular residential district.



Morskie Oko – luxury and successful residential project developed by Dom Development in Mokotow district.



Supply and Demand

As is often the case, the economic cycle and the development cycle are out of step. Just as the boom hit in 2003 and 2004, developers were putting the least amount of product onto the market. New apartment completions in the first 10 months of 2004 were only 10,300 units, compared to 16,500 in 2001. New restrictions on planning procedures, and the timing of the last real estate cycle, have led to the low rate of completions in the last two years.

We expect 12,500 flats to be completed in 2005, still far lower than demand. The greatest demand is for two and three room flats, averaging 40-60 sqm, in less expensive suburbs like Ursynow, Bemowo, and Bialoleka.

There is also great demand among both foreign and local investors for "buy-to-let" properties. With residential yields in the 7-10% range, historic price growth at 5-10% per year, and interest rates at all time lows, investors can get positive cash flow and total returns on equity of over 30%.

Mortgage Market

Low interest rates are stimulating demand, and the volume of new mortgage loans has doubled each year for the last three years. Current rates in PLN are 7-8%, and rates in EUR are 3-5%. Over 4 billion EUR worth of home loans were given in Poland in 2004. The maximum lending period is 30 years and the credit may be granted up to 100% of the property value, although 80% loan-to-value is more common.

Yields and Taxes

The VAT on new flats is 7%, and there is no VAT on property over five years old. The next expected change to VAT will be the introduction of the full 22% VAT on newly built flats on January 1, 2008, assuming the government sticks to their timetable.

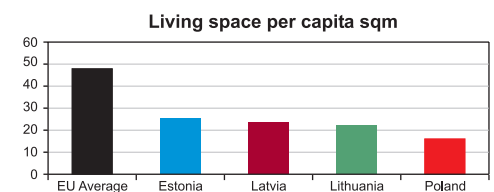
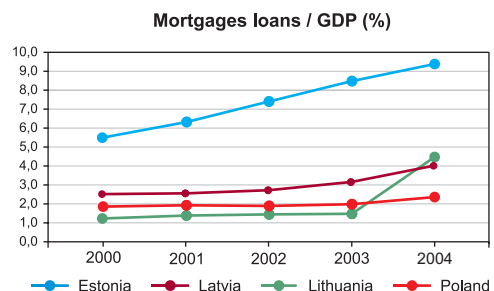
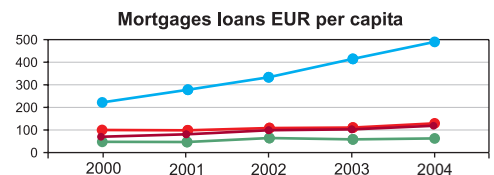
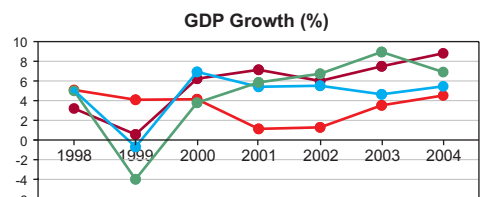
There is no VAT on residential rents. Private individuals must declare rent collected as income and pay income tax annually on a progressive rate scale of 19%, 30%, 40%, or they may register for a flat tax of 19%, but those who opt for the flat tax may not claim any deductions. Corporate income tax is 19%, with all deductions allowed. Both loan interest and improvements are tax deductible for both corporate and individual owners. Improvements may be amortized over a period up to five years.

On purchasing property the buyer pays the Treasury Office 2% of the transaction value, and court and notary fees which total roughly another 2%. The typical broker's fee is 3%. Expect to pay 7-8% on a typical purchase.

On the sale of an asset, companies pay standard corporate income tax rates on profits (19%), while private individuals can pay no tax if they either held the property for more than five years, or they re-invest the sale proceeds into a property purchase within two years of the sale. Otherwise a private seller can be hit with a painful tax of 10% of the selling price (not the profit).



Successful apartments in the heart of Warsaw on Elektoralna street.



For residential leasing and sales throughout the region, please contact:



ESTONIA

Contact: Hindrek Leppsalu
Tel +372 665 9700
hindrek.leppsalu@ober-haus.com



LATVIA

Contact: Girts Grinbergs
Tel +371 728 4544
girts.grinbergs@ober-haus.com



LITHUANIA

Contact: Vytas Zabalius
Tel +370 5 210 9700
vytas.zabalius@ober-haus.com



POLAND

Contact: Malgorzata Koprzywa
Tel +48 22 621 7007
malgorzata.koprzywa@ober-haus.com

See residential property offers at www.ober-haus.com