

Building costs and credit tightening threaten profits

# Residential developer margins likely to fall

Polish residential developer margins may decrease by 3-5 percentage points in 2008, according to internet finance consultant Open Finance's analyst, Emil Szweda.

"I expect developer margins to decrease by 3-5 percentage points this year," Emil Szweda told the *Report*. The main reason given for the decrease is increasing building costs, which analysts estimate to take up some 30% of total development costs.

While these increase, residential prices are at a relative standstill and developers are forced to add incentives to residential offers such as free parking spaces, fitted kitchens or free balcony space.

"This increases the costs of projects and affects margins negatively," DM PKO BP analyst Michal Sztabler wrote in a commentary. "A strategy, which is being used by some developers, centering on the sale of turnkey apartments, seems well placed but only in certain segments of the market, this being the market for apartments [...] of a higher standard."

High-end residential developers such as Von Der Heyden Group recognize that margins are likely to come under pressure, but remain optimistic as to continuing demand for luxury residential property.

"Margins of developers will unfortunately come under pressure for various reasons," Von Der Heyden Group Chairman Sven von der Heyden commented for the *Report*. "Mainly because of the cooling down of the market, however on a high level [luxury residential] we remain cautiously positive, also in light of our successful progress in selling flats in our small Warsaw residential projects."

Von Der Heyden Group is currently nearing the completion of a luxury residential

building in the center of Warsaw, which will contain eight luxury apartments of between 33 and 106 square meters.

While assuming that the decrease in developer margins will not be a significant one, Open Finance's Szweda noted that though rising construction costs are unlikely to affect larger market players, smaller developers may suffer due to the costs of financing.

When looking at developer margins, due to the variety of companies on the market, projects should be treated individually, but broadly speaking developer margins—which reached approximately 30-35% in 2007 - will fall to some 30% in 2008, DM PKO BP's Sztabler added.

Sven von der Heyden is in agreement that large developers, which have good liquidity, are likely to survive the tightening of credit conditions by banks, which is a result of the situation in the banking sector following the U.S. credit crunch.

"We should also not forget about tightening credit conditions imposed by banks, which [mean that] only good locations and the fittest developers survive," Sven von der Heyden commented. "This all together is certainly not the dreamland scenario for us real estate developers."

Residential prices in Warsaw reached PLN 8,847 per square meter (sqm) in January 2008, up 2% from December prices, and remained at the same level throughout February, according to internet property agency Rednet Property Group, cited by DM PKO BP in its report. Residential prices in the southern city of Krakow reached PLN 7,504 per sqm in November last year with little or no change being seen so far in 2008.

## Szczecin home prices may rise

The seaport town of Szczecin is likely to see a rise in residential real estate prices due to growing demand for flats and the city's improving economic situation, according to residential real-estate consultancy Reas analyst Jan Ciesla.

"There is an assumption that the continuing improvement of the city's economic situation and the demographic situation will contribute to a general boost in demand and determine its structure," Ciesla wrote in a report out in March.

The needs of young people for moderately-priced flats will be the base of demand in the residential real estate market in upcoming years, Ciesla wrote.

Apartment prices per square meter in Szczecin usually do not exceed PLN 6,000, the report reads.

Residential cooperatives account for 30% of the market, according to the document. The number of completed flats in Szczecin stood at 2,015 in 2007, up 125% year-on-year.

### Land use law may change

The government's "Friendly State" commission has submitted an amendment to the Protection of Agricultural and Forest Areas Act. According to the amendment, the low quality agricultural land that lies within the city borders would be exempt from the Act, thus allowing the owners of the low-quality farmland to omit some of the costs associated with today's formal change of land status from agricultural to residential. Changing the status of the land does not automatically mean real estate investment could take place there, however. The last word on the issue would still belong to the local authorities.

### Griffin to invest in Poland

Mezzanine fund Griffin Property Finance (GPF) announced that it wants to invest in the Polish real-estate sector. GPF Senior Partner Helmut Fischer said the fund is interested in industrial, residential and commercial market with the exclusion of hotels. The company has signed a letter of intent with developers for €100-150 mln, Fisher added.

It fund did not reveal the projects covered by the letter of intent but said that the developers in question are not listed. The total amount GPF wants to invest in Central and Eastern Europe comes to €250 mln.

### Energy certificates lack experts

The real-estate sector could come to a standstill in 2009 as there may be not enough specialists eligible to allocate energy certificates. From January 1, 2009, a certificate will have to be acquired for every building sold or given up for use. The Infrastructure Ministry has not yet issued a directive on the content of such certificates and as a consequence, schools are unable to educate specialists on issuing the documents. The Ministry's directive will be ready around mid-May, according to business daily *Parkiet*.

### No chance of price cuts says J.W.C

There is no chance of a general price cut on new residential properties in 2008, according to developer J.W. Construction's CEO Jozef Wojciechowski.

"I do not question the fact that the insane gallopade of prices from previous years is a history by now, but—when it comes to new flats—there is no way we will deal with rapid price cuts in 2008," he said. Price decreases could however be possible in unattractive locations, Wojciechowski said.