



Will small developers have to sell their projects for the price they bought the land for?

# Bidding their time

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**PROBLEMS WITH FINANCE AND CONTRACTORS, POOR DESIGNS AND OVERPRICED SITES ARE SOME OF THE REASONS WHY AMATEUR DEVELOPERS ARE STARTING TO SELL THEIR PROJECTS. LARGE OPERATORS, HOWEVER, CAN SIT BACK AND WAIT FOR PRICES TO FALL**

■ Emil Górecki

**T**he days has gone when Polish developers made a profit out of every investment. A year ago you could still buy land at a decent distance from the city and sell it a month later at a considerable profit – and the profit was several time greater when homes had been built on it. Experts claim that the market has simply become normal. According to the Central Office of Statistics (GUS), the difference between the number of building permits issued in 2005 and the number of starts was 13,000, but this had risen to more than 50,000 in 2007. This is not to say that it no longer pays to develop. It is just more difficult to obtain loans, project management costs have spiralled

and customers have become more demanding. This simply means that speculators have been pushed to the sidelines.

## **Amateur ventures come to an end**

Small and non-professional developers had been buying sites regardless of the prices, which were rising by even as much as 40 pct annually. The industry today is reaping the harvest of this excessive inflation. Jan Wagner, Polnord's sales and marketing director, remarks that: "A short time ago we started receiving more offers to purchase plots together with building permits or issued development conditions. Those who want to get rid of

## **PICTURE:**

'One-off developers' bought plots when prices were exorbitant and today they want to regain the money they have spent – remarks Jan Wagner, Polnord's sales and marketing director

them are usually 'one-off developers' who cannot get loans to finance the investment or are afraid of taking the risk. We have not yet decided to buy, since they are not such attractive offers. Prices must drop even further."

The difficulties which developer-speculators are encountering are signs that the market is cooling down. This eliminates such entrepreneurs and makes the operations of the industry more transparent. Long-term investors had little cause for satisfaction last year, but even today development is still not easy to manage, which is why some operators are disappearing from the market. According to Sven von der Heyden, president of the Von der Heyden Group: "For the granting of finance banks require, for instance, that 30 pct of the homes in an investment are pre-sold, which is almost impossible for a small developer. On the other hand, one piece of good news is that the banks are refusing to finance investments that carry a greater risk, which makes the market safer."

### **Ill-considered investment**

Jaroslaw Szanajca, president of Dom Development and head of the Polish Association of Developers (PZFD), explains that the issue is not that of small developers, but it's rather that the problem lies with amateurish companies: "Many small and solid developers experience no such problems. Amateurs are unable to show banks the history of other projects they have carried out. They also encounter difficulties when looking for contractors, since many of these prefer to work for more reliable operators. The owners of such firms think they can easily find parties who would want to buy their projects and plots, and that they can still make a profit in so doing. But they will still have to wait if they want to sell up, since such projects are usually only fit for the wastepaper basket."

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***Amateur developers'  
projects are usually only  
good for the wastepaper  
basket. Dom Development  
has never yet purchased  
such a project, although  
it regularly receives offers***

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The reason is that many such unprofessional firms have no investment-management experience. They very rarely cooperate with reputable architects and cannot pay for a decent design. The planned buildings have not been thoroughly thought out. However, the most egregious sin they have committed was buying the plots at exorbitant prices when the market had gone quite mad. This is why Dom Development never purchases such projects. Amateur developers are now moving into other fields, but when and if the situation improves they will surely return.

### **Plots purchased in fits of madness**

Grzegorz Żochowski, head of the capital markets team and a partner at Reas claims that: "The market situation could have been expected. Companies without experience are realizing that to be a developer is no easy job. Some want to sell their investments or find a financial partner for them."

Such an acquisition might prove to be good business. Should an owner want to sell a company, or part of it, it is not because he wants to share out the profits, but because he has to. And that means he is usually willing to negotiate. Grzegorz Żochowski takes Wilanów as an example, where several companies are wondering whether they ought to sell their properties or should instead look for a financial partner for them.

Mr Żochowski describes the situation: "These projects are in a good location, but do not meet developers' expectations as regards market growth. Strong competition and market stability are not allowing such prices to be asked of customers when the developers purchased the plots at high prices."

Jacek Twarowski, Kristensen Group's commercial director, observes a similar trend in holiday homes. The company has received five such offers in the past three months. Late last year, it decided on a project in the Karpacz skiing resort. The plan is to build 104 apartments in 52 mountain houses. Andrzej Juszczyk, the joint owner of the Podgórze company, which sold the project to Kristensen, stresses that: "The decision to sell was a considered step, The Kristensen Group is stronger and has a greater potential to make use of such an attractive piece of land. It will be more convenient for us to shift operations to smaller projects." ■