



” Factors of housing prices changes on the primary market in 2020

Jerzy Ptaszyński

Research and Market Service Director

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Exceeding the historical maximum nominal housing prices in most of the largest Polish cities has triggered, by simple analogies to the previous business cycle peak, expectations for their sharp falls, speculation about the rise of the speculative bubble and the prospects of its burst. Current market situation is however decisively different from the one we dealt with almost twelve years ago. Prices in real terms (taking inflation into account) are not high, interest rates are much lower and the level of wages is much higher. Considering these basic differences, the availability of apartments is still much higher than then, even before the peak of price increases. Moreover, the behaviour of today's apartment buyers have little to do with often irrational market participants' decisions observed more than a decade ago. Expectations of a rapid collapse of the housing market and dramatic declines in housing prices seem premature, especially when the situation on the primary market in near future will be shaped by a number of cost factors generating pressure on prices increases. So what will be the key factors from the perspective of price formation on the primary housing market?

1. Continuing high demand for flats

Despite expected or even already observed economic slowdown in the largest European economies and the national economy, the number of transactions concluded on the real estate market does not decrease. At a low level of interest rates, real estate will remain one of the most attractive investment objects, which in the situation of uncertainty in the economy and rising inflation will also stimulate further purchases.

2. Increase in electricity costs

Construction alone does not belong to the high electricity-consuming industries, with a high share of electricity cost in added value created in the sector. It would seem then, that the increase in electricity prices should not have a significant impact on the cost of housing construction. However, two reservations should be made here. Firstly, unlike some much more energy-intensive sectors of the economy, electricity consumption in construction is very inflexible, making any adjustments and savings very unlikely. That means that the increase in electricity costs is passed on to the total costs of building apartments virtually in a 1: 1 ratio. Secondly, increases in electricity prices will cause a significant increase in production costs of key building materials for housing, including primarily cement and steel, production of which is energy-consuming. Rising electricity prices have and will continue to have a significant impact on construction costs and, consequently, housing prices.

3. Situation on the labour market and opening of the German labour market for non-EU citizens

According to estimations, German economy needs between 800000 and 1.5 million employees. It is true that those needs are mainly associated with highly qualified employees, but there is also



lack of employees in German construction sector. It is rather unlikely that the relocation of Ukrainian employees from Poland to Germany will happen immediately and on massive scale, so it can be expected that the impact on the Polish labour market, including the construction sector, will probably be postponed. It seems however, that the outflow of some Ukrainians working in construction industry and simultaneous increase in wage expectations of those, who decide to stay in Poland, should be taken into account even this year. In subsequent years, problems with qualified employees recruitment will be overlapped by additional burdens for companies operating in the industry, mainly related to increase in the minimum wage (this year's increase was 15%), as well as social security contributions for employees conducting business activity.

4. Increase in land prices for multi-family construction

Demand for land for multi-family housing by developers remains high. This is a consequence of both the prosperity on the housing market and the willingness to secure the continuity of development companies and to launch new projects before the WT2021 standard enters into force. Meanwhile, land supply in the largest Polish agglomerations is very limited. The situation is not improved either by legal changes made in the last few years or by "freezing" of land for "Flat Plus" Programme projects, that have been ongoing for several years. Consistently deteriorating financial situation of local governments, which is a result of the policy pursued by the state, will also affect the market for construction land in the future. It can be expected that the pace of preparing and adopting local spatial development plans by municipalities, far from satisfactory in previous years, will even slow down.

5. Amendment to the development act

Work has been continued on the amendment to the development act, which is to introduce – following the model adopted in the banking industry – the Development Guarantee Fund. The fund is assumed to accumulate means in the event of developers' bankruptcy, guaranteeing that buyers of apartments get back all the invested money. The amount of contribution assumed by developers remains a contentious issue – a maximum of 3% of payments made by buyers to open escrow accounts and a maximum of 0.6% of payments made to closed accounts. The final amount of contributions is to be variable and determined by administrative decision. The maximum level specified in the bill can be however assessed as very high. If the amended provisions finally come into force, it should be expected that all additional costs will be passed on to the buyers by including them into the price of flats. As experience with the introduction of sectoral cost factors shows (e.g. the consequences of the introduction of the bank tax in 2016), this would be another very important factor affecting the increase in housing prices on the primary market.



Summary

Given the recent events, we can also imagine an alternative scenario (in fact it seems more and more real), in which, as a result of spreading coronavirus epidemic, economic growth in Poland will significantly slow down or the economy will even enter recession. In such a situation, we would expect a significant reduction in consumption and at the same time a slowdown in investments, including those made by private persons on the real estate market. However, even if this negative scenario materializes, it seems that the consequences on the housing market would be seen rather in the form of temporary freezing turnover and change in its structure than dramatic price drops. A similar situation has already occurred after the bankruptcy of Lehman Brothers in September 2008.

Therefore, in the event of a moderate economic slowdown, on the secondary market we may be witnessing a reduced tempo of prices growth or even their fall. On the primary market, however, such scenario is hard to be expected. Even in a situation of falling demand for flats, we should rather expect a reduction of the scale of development production than a significant price correction.



JERZY PTASZYŃSKI

Research and Market Service Director

e-mail: jerzy.ptaszynski@amron.pl

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