

Real estate agencies in the throes of recession



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“At this time of hyper-competition on the domestic real estate market, marketing, advertising and PR are, in addition to special professional services provided within the framework of the real estate agency’s activities, one of the key means to distinguish or present itself visibly to the general public,” explains Radim Koliba, of the real estate agency Hot Reality Plus. It is a rather young company, operating on the market since 2003. According to its managing director, the goal of the present campaign is to create the necessary brand awareness among potential clients. “We are aware that many of our competitors have been on the market for a much longer time than our firm and that building this type of awareness is a long-time task, but our results so far assure us that we’re heading in the right direction,” says Koliba. People in Hot Reality Plus probably suspect that the immediate future is going to be at least slightly different from the past months and years, when business was more than good. Some dealers think, however, that there will not be any big drama in residence trading. “As a matter of fact we are in a permanent crisis. When the market is growing, we have nothing to sell, while at the time of declining prices we have a problem finding buyers,” says Tomáš Duda, of RK Professionals, with a touch of hyperbole. He argues the situation will not be largely affected by the tougher competition posed by the Century 21 chain, which is the second representative of the gigantic franchising family Realogy operating in the Czech Republic (ERA was the first and, based on unverified rumors, a third brand could join them: Better Homes and Gardens Real Estate). “People here are looking for real estate agencies mostly on the basis of personal recommendation, the brand doesn’t play such an important role,” says Duda. Miroslav Jonáš, of M&M reality holding, is of the same opinion: “We don’t consider the arrival of additional foreign chains as tough competition. The past has taught us that whatever works in the US cannot usually go well with the Czech mentality.” What seems to be the biggest question and worry for real estate agencies is, however, the development of prices and, obviously, of demand for their services.

Unpopular price decline

“Why would they do it?” responded, almost with exasperation, a representative of the banking sector a short time ago to a proposal on the basis of which developers would solve their current sales problems (whose scope is mostly unknown, but there are definitely some) by cutting prices. A Prague developer expressed himself in a similar fashion at one of our discussion meetings. This obviously shows that the topic of price cuts is highly unpopular in this branch. In this regard dealers are less sensitive, but their estimates are more realistic. “There is a minor correction of prices, but in our country we should not expect such a sudden drop as seen abroad,” Koliba predicts, arguing that the prices of apartments in prefabricated houses and some new facilities are overvalued and are likely to be subjected to this “correction”.

Koliba estimates corrections of about 10%, but points out that at present the gap between the required, i.e. original and declared, prices and the actual prices is widening: “Based on our experience, the difference is usually up to 15 - 20%, which is a new phenomenon compared to 2007: at that time most sales were made at original prices.” David Černík, of RK Maxima Reality, projects an even less dramatic development: “The prices of most real estates will remain more or less constant. The development in the second half of the year, however, will depend directly on the country’s economic situation. If a principal downturn occurs, for example due to massive layoffs, a slight price decrease can be expected for new-built houses and apartments in prefabs. If some optimism associated with the strengthening of the EU’s economy kicks in, we could even see a slow price increase.” Petr Bárdoš from the head office of the franchising chain RE/MAX counts on a similar development, but points at one of the principal features of demand for residential houses: “The financial crisis, or rather the ‘crisis due to overproduction’, affects all industries to a larger or smaller extent right now. This also applies to the real estate market, where the prices of new-built houses could stagnate because of saturated supply. However, even at this time the market is evolving - housing is a fundamental human need and the current economic changes inspire motion on the market because of the needs such as work-induced mobility, sale of a larger house or exchange for a smaller one, lease instead of purchase.”

Projections are one thing, but real life is something different. Orco and Central Group have already taken to careful price cuts of some of their property (in this case the measures are wrapped in the omnipresent “Christmas discounts”). The situation abroad is much worse - in Romania the drop has allegedly reached 30% and the same figure is projected next year. Hungary is reporting a 50% drop in residence prices and the scene is equally bleak west of our border. A short time ago, for example, a Spanish developer organized a lottery for its apartments. The Czech residence market is definitely awaiting price cuts; it is the magnitude that is uncertain. According to some people, the room for major price corrections may not be so large: the prices are high, especially in Prague, but the prices of land and construction work and the costs of funding are equally high. “I think price cuts will be particularly needed by those who finish their projects early next year and will be forced to do so by the actual need to repay loans. Projects with longer credit limits, i.e. after that period, will not feel any such pressure and the prices could remain stable,” says Allan Jírek, of the development company EUBE.

What about the trades?

The development of prices is obviously essential for real estate agencies as well; their commissions are based on prices, but what dealers care about maybe even more is the frequency of trades. In this regard their opinions are not in full conformity. “I expect the clients’ growing interest in cooperation with real estate agencies. Selling property directly will not be as easy as it used to be. This is indicated by the ever-growing time for which properties are offered for sale by the owners themselves on real estate servers,” argues Radim Koliba optimistically about the future demand for real estate agency services. Miroslav Jonáš, of M&M reality holding, is of the same opinion: “You can definitely prosper at present. For example we achieved a record-high turnover in October and even now are generating very good sale volumes. We expect our turnover and profit to grow about 20% next year.” In this connection Tomáš Duda bets on demand generated by price decrease: “We have already seen the first signs that many investors waiting for a good opportunity.”

David Černík is much more skeptical: “The present crisis fundamentally affects real estate agencies. I estimate the sales decrease in the whole segment to be about 20 - 35% compared to last year. 2009 will be the decisive year. The market will be waiting in the first half, so the number of contracts will be lower than this year. In general, last summer was the ideal time to sell property, while next year can be expected to be the ideal time to buy, except for new-built houses, where multiple factors will be at stake.” Petr Illetško, head of the real estate agency AAABYTY.CZ, refrains from any projects: “The crisis is only beginning, I don’t dare estimating future development. However, we already have to respond to any possible changes: we are increasing the number of brokers and reducing our back office personnel. We consider these actions as a way to maintain the quality and prosperity during this crisis.” Petr Bárdoš, of

RE/MAX, perceives the current crisis as an opportunity to strengthen the position of large and well-established agencies: "The crisis gives opportunities to companies able to perceive the public mood quickly and respond to it adequately. We can therefore expect that next year many small real estate agencies will close down or combine with partners - companies which would give them the necessary selling, marketing and legal support.

According to estimates, about a half of all civic property transactions are carried out through real estate agencies in the Czech Republic, which is a very good average within Europe. And there is probably no reason why this share should fall. Jaromír Novotný, President of the Association of Real Estate Agencies in the Czech Republic and managing director of the real estate agency Rak, comments on the future very realistically and with a traditional degree of reasonability: "Services are provided even at times of crises, which also applies to real estate agencies. Of course the crisis could affect them, they could have fewer orders. However, a good dealer should be able to respond to market fluctuations better than for instance a developer. Developers are in a more difficult position."

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