

Office market: looking for savings



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“So far the Czech market has not been impacted by the drop in demand by banks. In the last quarter we noticed several inquiries for partial relocation or expansion put on hold, but other transactions are going through without any limitations,” Radka Novak, of the Prague office of the consultancy Cushman & Wakefield, describes the behaviour of a major group of tenants on the Czech market of administration areas. To a large extent her statement confirms and generalizes the outcome of the Skanska Office Index survey, conducted simultaneously in the Czech Republic, Poland and Hungary, which did not bring any alarm messages. The survey covered about 600 enterprises - 68% of its Czech respondents count on the same number of employees this year as they had last year, and therefore on the same need for office areas; 20% of the respondents even predict expansion in this regard. (The quoted survey also pointed, maybe surprisingly, at the low popularity of open office space in the Czech Republic. The biggest share of these office areas is seen in Hungary - 37%, vs. 16% in Poland and 15% in the Czech Republic.)

However, the consistently stable demand, especially compared to developed Western European countries, is not the only trend observed on the domestic market in office areas.

Environmental preference

To an ever-growing extent the tenants of office areas are interested in the energy, thus environmental, parameters of the offered buildings. The managements of two-thirds of all domestic companies are convinced that the declared environmental character of a building should guarantee its quality of use. At the same time, energy costs are the second most important factor for the choice of offices for the respondents of the aforementioned survey conducted by Skanska (the first being the contribution of the areas to their employees' satisfaction and good working environment). It should be mentioned that in this respect the Czech Republic seems to be the most “environmentally aware” (or economical) country in Central Europe; in Hungary this factor comes third and in Poland sixth in terms of importance. In addition, domestic companies correlate the expression “environmental” with the feature of “energy-saving” to a large degree - 79% of the respondents perceive it this way. In addition, the use of renewable resources of energy and environmentally friendly materials and the availability of public transport lines are important for more than half of them.

The potential of demand for office areas of a higher environmental quality should not be even limited by possibly higher rents (based on higher investment costs), because the level of rents in class A buildings rather tended to decrease last year. “Basically there is no increase in the prices of offices. Since lease

contracts are denominated in euro, the prices are virtually going down in connection with the strengthening of the Czech crown,” says Břetislav Cieslar, director of the real estate agency AAAINDUSTRY.CZ, adding: “Of course this rings true where the rents are charged in crowns and paid in euros. Some developers have therefore decided to charge rents in crowns, but there are very little of them so far.”

Cost-attractive regions

Although the impacts of the current global economic recession and financial crisis are not too apparent on the domestic market in office areas, we can expect interest in price cuts among domestic tenants, not only in the field of energy savings. As mentioned above, rents did not increase too much in class A offices last year, but compared to other regions, Prague is too expensive, and yet offers most of them traditionally. The rent for one square metre per month in the capital ranges between EUR 13.50 in suburbs and EUR 21 in the centre. However, top-quality offices can be already found outside the capital, too, especially in Ostrava, Brno and Plzeň, but are soon expected to appear in other cities as well. Domestic companies already look at the benefits of moving their seats outside the capital - that is why regional rents for offices increased by 7% last year, according to AAAIndustry. Demand is not limited only to class A office areas, as they are not simply available in many regional cities. Quality class B is therefore quite frequent; it offers lower comfort to its users, but proportionally higher rent savings. “The prices of this type of offices virtually copy the specific region’s economic prosperity. That is why the Ústí nad Labem region offers the lowest prices,” explains Břetislav Cieslar. The average rents are at a higher level in other regions, but do not exceed EUR 9 for one square metre per month even in the most expensive regions (Central Bohemia, South Moravia and Moravia-Silesia). Taking into account the small area of the Czech Republic and its good motorway network, there is no doubt that regions can become an economical and logistically feasible alternative to the traditional capital for corporate seats.

Rents in type B offices

Region	Rent in CZK per sq m per month
South Bohemia	90-180
South Moravia	90-220
Karlovy Vary	170-200
Hradec Králové	115-165
Liberec	110-170
Moravia-Silesia	110-200
Olomouc	105-185
Pardubice	120-180
Plzeň	115-195
Prague	150-350
Central Bohemia	125-225
Ústí nad Labem	85-150
Vysočina	90-140
Zlín	140-165

Resource: AAAIndustry

Real estate consolidation

However, energy cost and rent reduction is not the only way companies are trying to save money today. To an ever-growing extent they resort to something called “real estate portfolio consolidation”. Less and in a single place - it is the objective of this process. Especially larger enterprises (and recently also state and

self-government institutions in our country) are looking at “reserves” associated with the ownership and use of multiple buildings or premises. Bringing a company to a single place usually saves floor area and the sale of the company’s own real estates and their subsequent lease from the new owner can result in a purely financial effect. According to experts this is the way that banks will use to solve their current financial trouble. The European Banking Briefing study by Cushman & Wakefield shows that 43 leading European banks own properties and land suitable for sale in a total value of EUR 63 billion. Financial analyses imply that the whole European banking sector needs an injection of EUR 73 billion; theoretically speaking, the banks can cover almost all of this need by selling their real estates.

We can expect that Czech branches of major international banks will do the same, but with the useful step of the aforementioned concentration in between. Radka Novak comments: “Banks prefer moving to a single large building and its sale to one buyer to the sale of individual buildings to several buyers. That way they only go through the complicated sale process once.”

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