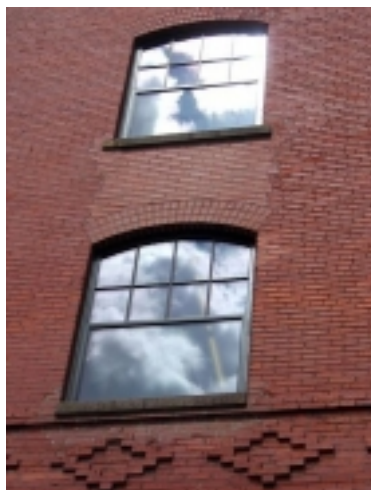


Real estate market in 2009: partly cloudy



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Jones Lang LaSalle's analysts evaluate this year's real estate outlooks, against the backdrop of last year's developments, very pragmatically. In principle they expect that all segments of the Czech market (including the housing market, in which international real estate brokers were not virtually interested until a short time ago) will undergo changes that as a rule started in 2008. Shifts will be especially apparent in demand, which should be generally weaker. According to the aforementioned projections, however, the impact of these changes may not always have traditional reverberations, for instance a lower interest in a certain type of property may not necessarily result in declining prices or rents. Yet the analysis itself often stresses out that it is just a contribution to the discussions on the future development, more or less unpredictable.

Offices: higher rents?

Although no final data is available for 2008, it is already certain that the domestic segment of office buildings had not been affected by the global recession and financial crisis so far. Quite to the contrary, last year was a pleasant surprise for the developers of administrative facilities and their dealers; the scope of areas offered by finished products and the size of the leased areas were both much higher last year than in 2007.

“Over 315,000 square metres of modern office areas were finished, which is a record-high figure on the Czech market and is about 115,000 square metres more than normal. On the other hand, 2009 gives an opportunity to finish about 160,000 square metres of modern office areas so far, which is less than historical average,” Eduard Forejt, head of Office Areas Lease in Jones Lang LaSalle, comments on the recent past and near future of the office market.

According to him this segment will not avoid the negative impacts of the current economic development in the world. The developers are likely to slow down or even postpone the implementation of many scheduled projects. On the other hand the existing situation has not influenced demand in any way yet. If this trend continues, the vacancy rate can decrease significantly (taking into account the limited supply of new areas), which would allow landlords to increase rents. “The end of 2008 brought a flurry of new inquiries, plus there are big players ‘on the market’ now, planning to conclude contracts for new seats,” says Eduard Forejt, adding: “Demand outlooks for this year are very hard to estimate. Based on our current assessments of the situation, however, we predict that the market will not fall into recession in 2009.” And in spite of the uncertainty related to all similar predictions, Jones Lang LaSalle's experts expect that in

the second half of the year the parameters of the domestic office trades will get back to normal.

Logistics complexes: end of speculative construction

As regard industrial properties, last year featured continued construction of large halls for lease, mostly on a speculative basis, but in the last quarter the situation in this segment of commercial properties changed dramatically - obviously on the back of the existing problems of the global economy. "Because of the situation on financial markets, almost all speculative projects have been halted," says Miroslav Kotek, of the Industrial Properties Department. According to him we can expect that buildings whose production was launched last year will be completed this year, but the volume of new construction activities will only depend on new orders - i.e. the bell tolls for speculative construction, at least for the time present. The vacancy rate of logistics parks is therefore likely to go down (today it is at the rather high level of 17%), but rents should remain stable.

Retail: market almost saturated

"In 2008, over 324,000 square metres of modern retail areas were finished. There was an obvious shift towards enlargement of well-established commercial areas in smaller towns, where hypermarkets and discount shops are supplemented with shopping parks. In most larger regional cities, retail is getting back to city centres, namely to main shopping streets as well as to newly opened shopping centres," Ondřej Vlk, of Jones Lang LaSalle, summarizes last year's development in domestic retail. He says these trends will prevail this year as well, with this development being most visible in northern Bohemia. This year we expect completion of the projects Liberec Plaza, Forum Liberec, Interspar Jablonec nad Nisou, Forum Ústí and some minor projects in Chomutov and Teplice.

However, other projections are rather complicated, as mentioned above. The saturation of the retail market is growing and the population is expected to be highly cautious when it comes to spendings. Developers will therefore probably approach new projects very carefully and some projects in progress are even likely to be frozen.

Residence: speedy revival of demand

The demand for new housing on the Czech Republic's real estate market in residential properties declined in 2008, mostly in the medium price range, which also reflected new and stricter conditions for loans provided by banks. However, the prices of new as well as older properties are not falling. "Price cuts are applied only in exceptional cases and they are not all-encompassing downward adjustments. If banks limit and put obstacles on the funding of scheduled and prepared new development projects, the smaller number of flats supplied to the market could paradoxically result in higher prices. Demand for new housing is still large, but potential buyers postpone their purchase because they do not have accurate information on market developments. That is why we expect a significant revival of the residential property market as early as in the second half of 2009," Karel Dudych, of the Residential Department of the consultancy Jones Lang LaSalle, predicts the future development of the housing market.

(In the days to come you will find a projection of development in retail properties and the estimated development of real estate prices in individual regions on Stavební fórum.)

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