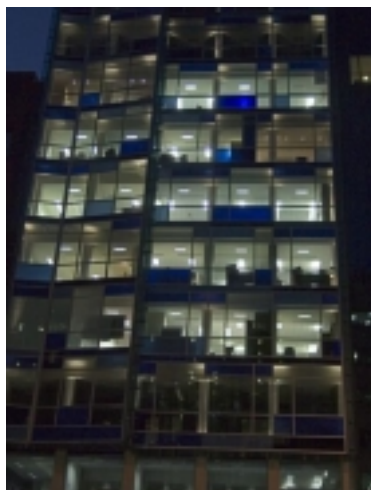


# Offices: recession with a foretaste of better times?



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Last year, 329,500 square metres of new office areas were built on the domestic market, so in total the Czech Republic presently has about 2.5 million square metres of such premises. This year's outlooks are almost gloomy at first sight, judging from the projections of international consultancies. Compared to last year, the supply of new offices in buildings set for completion this year should drop more than dramatically, by about 50%. Experts talk only about 160,000 square metres of administrative areas, of which a large part - 75% - is traditionally supposed to appear in Prague. The reason for this plunge is simple: financial crisis and the consequent harder access to bank loans for developers, which results in delays and temporary postponement of certain plans. However, the situation does not seem so disastrous when the expected administrative increments are compared, in absolute terms, to 2007 - they are identical, more or less. Last year's construction activities were extremely massive and marked a twofold area increase year-on-year. The growth of almost 100% in 2008 and this year's projected decline by 50% therefore level things off with the year 2007, which had not been certainly unsuccessful for developers.

## General reassurance

And what is more, developers and investors have no reason to complain as regards other aspects. While in 2006 and 2007 the rents in top-quality administrative buildings were stagnating, last year they grew 5%. For this year, King Sturge for instance does not expect any significant rent movements. The question is, however, how developers would cope with the current dynamic CZK exchange rate. It is a major, if not key, indicator for them, since rents have been usually denominated in EUR. In the past, their CZK incomes were weaker because of the ever-growing strength of the Czech currency on foreign exchange markets. This year's development is opposite. The CZK exchange rate is going down rapidly against USD as well as EUR. Right now it is about CZK 28 per EUR, but some economists are talking about the possible weakening to CZK 30 - 32 per EUR in the near future. The projections of the Czech National Bank (allegedly unique at the level of central banks at the global level) are more temperate, predicting exchange rate fluctuations around the current level. However, the Czech National Bank's recent steps, specifically the lowering of the fundamental interest rate to 1.75%, are set to weaken the position of the Czech currency even more. At any rate, landlords can count on higher CZK receipts, which could help them meet their tenants' requirements better. The relatively high vacancy rate could be also of importance in this regard. At the end of last year, 9% of all office areas were unoccupied, which was a 50% increase compared to January of the same year. The market did not have time to absorb the enormously huge supply of new administrative projects; this year the disproportion between supply and demand should gradually level off and the vacancy rate should drop to 6 - 7%, i.e. back to the 2007 level.

## Ahead, as needed

Zdeněk Tůma, Czech National Bank's Governor, once again downgraded the growth projections of the Czech economy. Today the central bank expects a GDP increase in the area of "negative zero". The better part of this projection, however mentions the turn of 2007/2008 as a moment from which the Czech Republic's economy should slowly start improving, so in 2010 it could generate a modest 1% growth. At present the administrative property market is seized by uncertainty and the fears of future have started affecting the decisions of some companies on their potential expansion or relocation of offices. Likewise, banks are not too helpful, with their requirement of 30% advance rentals, but taking into account the long project life, developers already have to prepare for an economic revival today. And some are trying, even though the current conditions are far from ideal.

Radim Passer's development company Passerinvest Group is getting ready to expand its new office complex in Michle, Prague. The total service area of the new building - 11th in sequence!! - should be almost 20,000 square metres. In addition, Skanska Reality is also planning to build a new office building in Prague 4, which should offer about 13,500 square metres of offices for rental. The investment could climb to CZK 900 million. Naturally, Skanska is cautious, so according to its management, this construction project will not be kicked off until a party interested in renting it is found. Another example is in Vysočany, Prague, where a project developed by CODECO was launched last year. The first building should be finished this year, but the developer has other ambitious plans in the city district - the Kolbenova City complex should offer 200,000 square metres of office areas upon completion. The preparation of a construction project at the Pankrác Plain has also recorded progress - the company Pankrác is planning to build an administrative centre there. And other development activities can be found outside the capital. Some time ago the development company Amádeus Real disclosed its project of a multipurpose centre called Aréna, worth CZK 1.2 billion; new type A offices, so far in short supply, are therefore about to appear in the centre of the West Bohemian capital in 2013.

This year has already brought the first investment transaction as well. Real Estate Karlin Group sold the Corso IIA administrative complex (with 13,000 square metres) in Karlín, Prague, to an international investment corporation. However, the new owner's name and the transaction value have not been released.

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