

Recession: Opportunity for capable and for quality?



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Last year, the value of real estate investments, which are one of major indicators of the market status, dropped by 51% European-wide. This drop amounted to 37% in the Central and Eastern Europe, while in the Czech Republic the value of real estate investments dropped by nearly catastrophic 60%. The crisis is a fact, and, currently, several such “bad news” occur each week while these gloomy statistic data spice data which indirectly confirm them. “We conduct fundamentally less appraisals,” says Zdeňka Klapalová from the consulting company Knight Frank. However, in this flood of information of generally gloomy nature, more promising data occur from time to time, which have nearly optimistic undertone, particularly in the current situation.

With whom does this crisis agree?

“For the time being, we encountered no forced sales,” claims Zdeňka Klapalová adding that owners of commercial real estates, which are pocketed by their schedules of payments, are relatively successful in finding ways how to avoid sales for undercut prices. These ways include different types of mergers and partnerships or, in extreme cases, acquisitions of the whole company with its real estate portfolio. “The situation plays into hands of similar giants like Kellner’s PPF or Komárek’s KKCG, which wait for advantageous acquisitions,” adds Milorad Miškovič from the developer company Real Estate Karlín Group, who assesses such transactions more positively than forced sales.

However, not all face attacks of investment sharks. Not all market segments or their parts are really deeply hurt. “Data concerning price development within the residential market in London show that there is still enormous interest in luxurious apartments. Current decrease of prices has not at all such scope as their increase not so long ago,” Zdeňka Klapalová highlights the fact that high quality related to certain exceptionalness will well survive any crisis - and, for sure, not only in Britain. This statement is also supported by continuous interests in purchases in traditional proved markets - which include, besides London, e.g. big German towns. Today, investors are careful but are still willing to hedge their bets.

Czechia stands a bit aside of such activities but even here increased investors’ and users’ demand in certain segments of the market could support both prices and development. “The state administration is very prospective party interested in office buildings - experiences of those institutions, which have already decided for tenancies in modern buildings, are more than good,” states Milorad Miškovič. Other experts calculate upon the second wave of headquarters relocations of transnational corporations into our region. They could be attracted both by qualified labour offer strengthened by the crisis and weakening currency. This should retroactively create pressure on the rental level of office buildings (particularly because their

current development is insufficient in view of two or three following years) and subsequently revive development.

Of course - such hopeful signs do not occur everywhere. E.g. the local logistic and hotel segments will be recovering probably longer than the segment of office and commercial buildings. Even though, there are signs of future improvement of conditions. Activities of more agile actors in the market and change of their thinking belong undoubtedly among them.

Condemned to quality?

Martin Skalický from REICO, which manages the real estate funds of Česká spořitelna, sees the reality with not exaggerated but at least some optimism: "Investments go on but a bit differently." According to him, purchases are made more carefully, minor transactions (ranging between 10 and 30 million EUR) are preferred, and investors are taking into account factors that were not considered before. E.g. sustainability of rental revenues which is closely connected with prosperity of tenants or, as the case may be, prospects of their activities. And so, due to generally unsure economic development, the buildings with one tenant, no matter how prestigious and solvent he might be, are not at all attractive - in such cases the risk of crisis impacts is too high. Zdeňka Klapalová predicts further shifts in buying habits of investors: "Buildings with economical operation will be more and more preferred."

Of course, more innovations in the business and development spheres will be needed. "All hitherto formulas are failing. In our calculation, we can calculate with the only certain item which consists of rental revenues," states Martin Skalický. According to him, today it is very difficult to find any historical development parallels or behaviour etalons: We have move from certain bandwagon effect, when one party imitates the other one, to individual approach, to tailored solutions. It requires experiences, creativity and courage to use new non-traditional methods."

Ms. Klapalová complements this general strategic recipe with a slightly more specific vision: "Only overall quality projects will be successful. In past, our market excused faults but none can count upon it in future." It seems that the current crisis shall condemn the Czech market and, particularly, developers to quality. According to opinion of many, quality as such has not yet enrooted in our circumstances, when a demand has relatively significantly exceeded nearly everywhere and always an offer. This recession could act as its growth incentive. However, Ms. Kostrounová from CSOB highlighted weakness of such predictions during the Building Forum Conference: "The fact that there will be less opportunities and more difficult to build may be reflected in effort to build cheaper and, therefore, lower quality."

Missing wheel

Modern economics and, particularly, its real estate segment cannot work without loans. That's why, the attitude of banks or, better say, their willingness to give a credit to new projects is the key factor for every moment of the real estate market development. Today, when ways to shorten or to eliminate the recession are intensively sought, this is double valid. Tewfik Sabongui from the consulting company Jones Lang LaSalle stated at the conference: "All proposed alternatives are missing one wheel." He meant the currently weak will of the banking sector to respond to the situation otherwise than by "tightening taps". It seems that banking managements are not too fond of creative and courageous approaches. "We have to be cautious, we care for deposits of our clients. We will remain conservative," stated Lenka Kostrounová during discussion. It directly or indirectly ensued from her statement, which corresponds with otherwise rather sporadic comments of other representatives of the banking sector that trust on the inter-banking market has not yet been re-established and banks are behaving correspondingly. "Today we prefer simple and reliable projects of unquestionable quality and high transparency level," defines Ms. Kostrounová a project type, which loan application may succeed at banks. Even in such case, banks persist on substantially higher share of developer's own sources and higher level of pre-contracted sales or tenancies.

The facts are, that specific market parameters (even for nearest future) cannot be forecast well enough today and a lot of other unknowns is in bankers considerations - particularly destinies (and directives) of parent banking houses which stagger in problems of significant dimensions. In all, this cannot lead local banks, even though they repeatedly declare their good conditions, to anything else than enhanced carefulness and trend to rather limit their involvement in loans. The more, the market itself supports this policy. "When discussing with our risk management, for the time being, we have no argument for setting less demanding criteria. The demand for loans is enormous, says Lenka Kostrounová.

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