

Czech real estate market: problems and promises

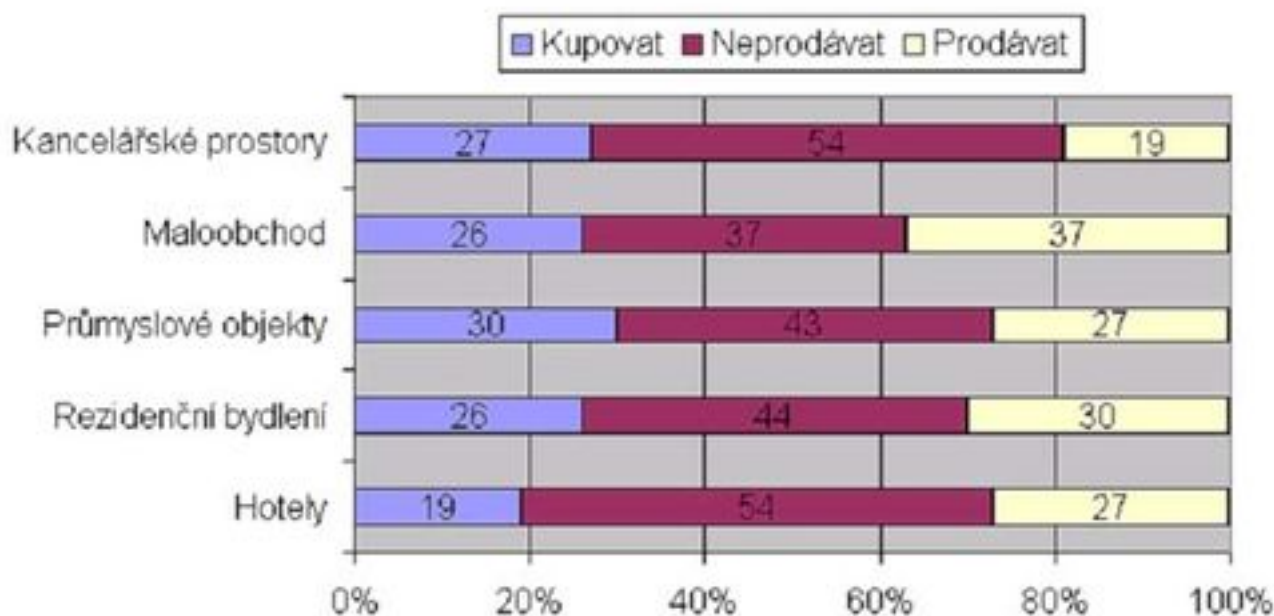


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The supply of and demand for commercial real estates in Prague remains rather balanced and since development firms have halted many projects, there is a certain hope that the market could revive - as regards demand and prices. Glen Lonie, of PricewaterhouseCoopers Czech Republic, looks into the real estate future of the Czech capital with optimism: "The evaluation of Prague shows that it is a rather stable location on the generally complicated real estate market. The falling investment activities and the limited access to finances reflect the general situation in Europe. When the market bounces back, the levelling of the revenue rate of real estates should confirm that Prague will be seen as an advantageous opportunity for investors and developers."

The mentioned study not only maps the situation, but also adds "advice" for entities interested in investing into real estates. For this year, Prague has been given a "hold" recommendation. Although it is a great shift from last year's "buy", the global financial crisis and the subsequent lack of loan resources have had a lesser impact on Prague's local market than on the markets in some other countries, where selling is the only option.

Praha: Investiční doporučení od účastníků studie PwC



Hard times?

In general, however, the study that analyzes the real estate markets of 27 European countries and has been prepared on the basis of a poll with almost 500 industry leaders signals that 2009 will be a “very hard” year. The market in the whole Europe will be plagued by a lack of own funding resources and loans and it is not clear yet when this situation would change. An overwhelming majority of respondents said that it was virtually impossible to get a new loan now and that it would be very hard to obtain funding resources also for the rest of 2009. Buyers are therefore looking for alternative financing solutions.

The study points out that the current situation could result in a tenant crisis in consequence of the growing recession in Europe. The expected or prevailing production slump could result in a decreased interest in office, sales and logistical premises among tenants - in response, the level of leases could stagnate or even drop. However, these projections are contradicted by other estimates. For example in Prague, the influx of new office premises will slow down distinctly this year, which is already visible on the low intensity of new construction activities, so in effect this lower supply could push rents in an upward direction.

In the whole Europe, however, retail sales, business confidence and prices of real estates continue declining. The general economic situation is in favour of entities with free investment money. According to the mentioned study, they should focus on Munich, whose real estate market presents the best investment opportunity this year, while Dublin ended up last. Prague is positioned in the middle of the real estate and investment ranking - 15th in terms of investment opportunities and 9th in terms of opportunities for new construction.

Business real estates: rather smaller rentals

The results of a survey conducted by CzechInvest, focused on examining the behaviour of investors in the Czech Republic in relation to business, are unfortunately quite in line with the results of the mentioned survey by PwC, namely its evaluation of Europe’s economic future and its real estate market. The former survey shows that the interest in purchasing land is declining, while the demand for rentals of production and other premises is on the increase. However, all investors today rather prefer smaller, compact spaces.

Compared to 2007, the interest in purchasing prepared land in industrial zones declined and the demand for rental space increased strongly last year. In general, industrial zones (where land purchase is necessary) had a 49% share in demand, rental halls 43%, of which 8% of all investors were interested in brownfield projects. “Probably the greatest surprise of the latest statistics is the speed with which investors are losing interest in building halls on their own property in industrial zones. Last year their share dropped by nine percent,” says Alexandra Rudyšarová, Chief Executive Officer of CzechInvest. According to her, this is a logical step because instead of large production projects, the Czech Republic has become the destination for smaller enterprises with advanced technology. “While in 2007 research and development of services constituted only 32% of all investment projects, last year the percentage was 63%,” says Rudyšarová. Investors are interested in rental areas of 2,000 to 5,000 square metres most of all.

The fact that territorially, investors prefer northern regions of the country at present, i.e. Ústí nad Labem and Moravia-Silesia, is certainly good news. This is due to the prepared commercial properties and the good supply of workforce. CzechInvest expects a similarly motivated demand in the Zlín region.

The latest statistics regarding the construction of logistics parks used for distribution purposes as well as for light industrial production confirm the changes and shifts in preferences among investors. Last year, after years of rocket-fast growth of such parks, their construction has declined by a third (while it increased by a third in other CEE countries). And according to estimates by Cushman & Wakefield, the logistics segment should see this downward trend this year as well.

Stavební forum

