Shopping centres: market waiting?!

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According to CB Richard Ellis, the total area of the three shopping centres was 54,500 square metres. By coincidence, all of them are located in the Liberec region – Forum and Plaza in Liberec and Rýnovka in Jablonec. Liberec shows the highest concentration of new shopping centres in the Czech Republic: 1,112 square metres per 1,000 people; in Plzeň the figure is 850 and in Prague 729 square metres.

According to the projections by the same company, this year's meagre increase of new retail areas in the Czech Republic was still rather high: the rest of the year should see only 56,000 square metres of new areas, i.e. about the same area that was put into operation in the first three months; this is in contrast with the large volume of shopping centres completed in the past two years as well as with the ten-year average spreading of retail, which was 164,000 square metres in the Czech Republic. This development is, however, in line with the trend seen in the whole Europe.

Limited interest among investors and property developers

Investments in retail properties in Europe largely declined in the first quarter. Their value amounted to EUR 980 million, i.e. a 37% fall compared to the previous quarter (EUR 1.5 billion), as pointed out by the latest survey of Jones Lang LaSalle. Jeremy Eddy from this company comments: "The investors in continental Europe continue in their waiting stance, seeing that the prices on many markets declined in the first quarter of 2009. And the more expensive and less available financing restricts market liquidity, especially for large transactions. However, there is still demand for the best properties in the best locations and the low vacancy rate of many top-quality projects can ensure a safe and long-term income, which investors are looking for."

The situation is even worse in this regard in the Czech Republic and in the whole Central European region, which are less attractive than the traditional real estate markets in Western Europe. "The investors in the region are carefully considering their investment opportunities and are very choosy. Only dominant shopping centres of the highest quality can be sold, but at a lower price than in the past. Lower-quality centres in worse locations are mostly eyed by opportunistic investors, but on condition of higher price flexibility. The possibility to take over the current credit for the real estate from the seller is a major element in the buyers' decision on whether they should actually deal with the investment opportunity," George Lewis, of the Czech branch of Jones Lang LaSalle, comments on the development in this area.

The price movements are in line with such investors' approach. According to an analysis by another consultancy (CB Richard Ellis), the price of shopping centres in the post-Communist countries was basically declining in the past quarter, in some cases very rapidly. For example in Romania, the quarter-on-quarter increase amounted to 29%, in Poland 21% and in Ukraine 13%. However, the Czech Republic, or Prague, saw only a minimum decline (4%), and the situation is totally different in Russia, where investors pushed the prices up by 13% more than in the last quarter of last year.

The intensity of construction activities corresponds with the condition on the investment market. The results of the European Shopping Centre Development study by Cushman & Wakefield show that the construction of about 7 million square metres of planned new shopping areas in Europe has been suspended due to the global financial crisis. In 2009, only about 10 million quare metres of new shopping centres should be launched in the whole Europe, i.e. 40% less than projected in July last year.

DTZ: another view

While the mentioned surveys more or less agree on the rather negative evaluation of the situation, some experts see it at least partly in a better light. The consultancy DTZ published its own estimate of development a short time ago, giving a completely different picture of the retail segment. According to DTZ, the results of this year's first quarter confirm that retail is the only segment of the Czech real estate market that is growing in spite of the crisis. In the first three months of 2009, 65,600 square metres of modern retail areas were completed, and the increment for the whole year should be almost 340,600 square metres, according to experts from the international consultancy DTZ; these figures significantly differ from the projections by CBRE, which only counts on an increase of 65,000 square metres. "However, not all projects will be problem-free. The property developers of shopping centres have to get used, for example, to the loss of companies interested in fashion and fashion accessories. On the other hand, the demand for gastronomy and staples is growing," said Martin Kubík, of DTZ, adding: "The tenant are generally much more cautious as regards expansion because some shops may not generate a profit and many of them signed a contract for a project in the past that has run into financing problems, and is being delayed." According to his colleagues, the persistent willingness of Czech consumers to spend money is another reason for optimism. "In last year's last quarter, the Czechs left 6.8% more money in shops than in the same period in 2007. The first months of this year show a slowdown in the growth of expenditures, yet they are higher year-on-year," says Martijn Kanters.

It is hard to evaluate DTZ's surprisingly different view of the current development in the commercial properties segment. At any cost, international consultancy firms have "slept through" the current undisputed crisis (just like economic prognosticators in general). And there are no exceptions, which certainly points at a certain uniformity and "herd behaviour" of their projections in the fashion of "if we say what others say, we cannot go wrong!". At this time of recession, this failure may turn into an effort to see things differently than competitors. However, a pessimistic view of the development is typical for the whole sector (just like it was brimming in optimism before). The mentioned projection by DTZ therefore goes against the tide. And it will be soon obvious if it is just an effort to distinguish itself from the competitor or a different and maybe even more objective evaluation of the reality.

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