

Jan Jerie, Crescon: Czech property development faces poorer years

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Your company was officially founded last year. We all know what started on the market last year. Is not your timing a bit unfortunate?

Fortunately for us, the crisis arrived at the very beginning of our operation. It is relatively good for Crescon, because we are not at a stage when we would be forced to sell quickly and repay loans for construction. At the same time, we are happy that we almost do not need any credit financing. All of our projects are in the preparatory and design stage; we are talking to architects, attending to zoning decisions and building permits.

Has the current real estate crisis changed anything in your plans or projects? I am especially asking about their timetables.

It was not necessary; as I have said, we are only at the beginning. In Podolí we are preparing an apartment house with nine luxurious flats with prices of about CZK 120,000 per square metre; in Braník we are working on a similar solitary with nine flats, mostly with an area of 120 square metres, at a price of 70,000 - 80,000 per square metre. The former apartment house at Procházkova 7 in Podolí is already being sold and although we only have an effective zoning decision, we have already concluded reservations for four flats, out of the total number of nine. It is enough to get a credit. And we would like to start marketing the apartment house in Braník in about a month.

The banks are usually said to require 50 - 60% pre-sales?!

They are not so strict on these smaller projects, 40% is enough. Frankly, we do not expect any problems in funding. What holds us back are authorities, everything takes too long. And we would like to start building three residential projects in autumn.

You have quite a lot of projects going on, residential as well as commercial. As a standard, however, each property development firm specializes in one type of construction, or one segment?!

That is true, but today this diversification reduces business risks. It brings more security to use and our clients. Right now, Crescon especially works on residential projects, but in the future we would like to strengthen our activities in commercial property development. Their uniform distribution, i.e. 50% residential and 50% commercial projects, would be ideal.

Now you are in the stage of land purchases, building procedures and architectural preparation. These are also costly activities; how do you finance them? You say you have not needed any bank loans yet.

We are trying to gather money from private investors, often cooperating with construction firms and land owners - this is the case of our shopping centre project near Příbram, in the building of the former soda water works. Today, there are class C warehouses there, virtually without any revenues, so the owner was looking for a way to use the land more efficiently.

Nevertheless, you will not be probably able to do without a bank credit in the near future. Do you fear that the credit restrictions could have a negative impact on you?

I do not think that banks would stop the funding of property development projects completely. Compared to the past, they only raised their demands on the investor's resources and pre-sales, or pre-rentals. I do not see that as a pure negative. In the past, property developers used to build virtually free of their own resources; I think the risks were unreasonable then. In addition, we do not need loans in the hundreds of millions; our projects are relatively small, with tens of millions needed. I am not afraid of negotiations with banks.

You mentioned the Park Evropská project on the site of the former soda water works. It is a brownfield project. Do you count on using any subsidies?

So far we have not thought about it, but if it turns out to be advantageous, we will try to get a subsidy. I think, however, that a project of this type should be viable even without any such financial injection. Baumax will be built close to the mentioned project; the building as such is situated on a motorway access road, without any filling station nearby - we want to take advantage of all these circumstances. However, we are successfully using subsidies within the framework of our specific project - building for the winemaker Gala. It is a source for many types of subsidies - for regions, for agriculture and wine-growing, and also for the development of agro-tourism.

The territorial distribution of your projects implies that Prague and its surroundings is the dominant location for you. Is that your intention?

Our plan is to focus predominantly on Prague, unless we run into an extraordinary opportunity in the regions. The reason is simple: we know the Prague environment very well. But we can already see opportunities in other places as well. A good example is our project of apartment villas in Odolena Voda. We have a 10-hectare piece of land in this region and would like to build a whole district on it. Right now we are preparing the first stage - eleven apartment villas designed by the studio olgochorchoj.

Let's talk about the general situation in property development. A short time ago, a document called "Appeal" was even drafted - an appeal on the state and on banks to deal with the dire situation of domestic property developers. How do you evaluate this step?

It might help because the problems of property developers are discussed more widely. However, I do not think it would in fact change the attitudes of banks to project funding.

So the crisis will continue?

I do not evaluate the current situation so negatively. Quite to the contrary, it is an opportunity for small businesses to get to larger projects. Not so long ago, the market seemed to be divided among several large players, and nobody could get up there. In the past, almost anyone could become a property developer. But property development is a rather complicated and complex field of business - I think the crisis is a benefit in this respect.

However, even qualified developers are facing significantly weaker demand; it is not certainly good news for property development?!

It is not so critical. I personally know about the current demand for 100,000 square metres of offices in Prague alone. But, of course, domestic property development is facing poorer years. The margins will not be so high, most construction projects will be pre-ordered and speculative construction will be at a minimum. It is an advantage for everyone. Property developers will be exposed to smaller risks and clients will be allowed to adjust the projects so that they are really "tailored". Obviously, property developers will have to change their style of work. They will have to consult architect more and look at the technical and design-related aspects more carefully. There is definitely room for savings here, and so far it has not been used economically.

Will not this approach result in lower functional and aesthetic architectural quality?

Not necessarily, in my opinion. The functional and architectural standard is predetermined, among other things, by the investor's specifications and the purpose of the building, the choice of architect and the cooperation between the investor and the architect.

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