

Kamil Kosman, ČS: The worst things are already over

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We will start untraditionally not with the crisis. Mr. Director you are in daily contact with architecture, you have spent some time as an architect, you were the Chairman of the competition jury of Best of Realty, you are daily in contact with new projects. What is, in your opinion, the present status of the Czech architecture?

Like anywhere else, we have top architects and top projects with an intellectual investor. Most of the construction production, however, is in the style which I call consumption architecture - the only interest is to build it and make it usable. I think that authors of such buildings many times even are not architects but civil engineers. Which is not so horrible in the end, not everything built must be a work of art. But sometimes the quality is very low. In particular in residential construction there are often projects the level of which I would call twopenny. And exactly those buildings create our immediate surroundings which is around us and forms us. In the field of commercial real estates, the situation is better. New hotels, as well as office buildings correspond with their architecture international standards, in many shopping centres their architecture is part of their marketing. But residential buildings are sometimes really catastrophic.

Most of those, in your opinion catastrophic, projects have been funded by banks including Česká spořitelna?!

In the past, we have rejected several times funding of projects due to the low level of their architecture. But the main thing for us is, of course, the commercial point of view, in the end also that time our opinion was in the background that the projects do not have a chance to succeed in the market. On the other hand, we have paid attention to that quality parameter less and less - only recently in fact everything built was sold.

Therefore those architecture catastrophes are in fact also your deserving!

Architecture as a whole is always a reflection of economic and cultural level of the country and last but not least also of the wish and taste of customers. But to reply your objection: it will change. Already now we are preparing a new rating system for developing construction where the weight of the architecture quality and the project design will be much higher than in the past.

Banks usually scarcely do something without economic motives. What motivates you for the change?

We think that the economic crisis will result, among other things, in a certain redefinition of the market. Nobody knows exactly what requirements of purchasers of residential projects will be when the taste to buy recovers. But the aesthetic quality of projects will be almost certainly in relation to return and success play more important role on the market.

You have relatively wide range of interests: you collect visual arts, design, you are among supporters of haute horlogerie, you like good wines. To summarize, you obviously like to be in a sophisticated environment. What is the situation in Czechia in this regard, in your opinion - sophisticated quality of customers definitely influences the architectonic quality of buildings. Are we as a whole a sophisticated country?

Oh yes, although definitely: there is always something to improve and add. This applies to all nations or countries. If we compare the Czech conditions with the Central European region or Balkan or Asia, I think that Czechia is a culturally, as well as economical enough sophisticated country. This in spite of economic problems or political scene which is, simply as it is.

You have already mentioned the crisis, so let us stop at it. You spend much time in the Vienna centre - what is the mood there?

You know, the mood still is not especially positively turbulent. But we think that the worst is already over. Still some time is needed for the markets to recover to a visible increase - in our opinion it will be at the end of the year, no later than in the first quarter of 2010. Much depends on development of economies in the USA and Western European countries; we must add some six months to that after which the economic recovery gets also to us, i.e. to the Central Europe. Therefore we are slowly preparing for a reentry of increase in commerce. But be prepared for everything going rather slowly. One thing is recovery of the economic growth, another thing is increase in the growth rate to the former 4 - 5% which enabled the realty boom we had here before the crisis. It can be very hardly estimated.

You have mentioned dates of recovery of the economic growth - what delay will be in response of the real estate market or markets?

I think they will go in parallel with other fields - increase in the segment of commercial real estates depends mostly on activity of investors and corporate demand, in the residential segment on demand of households. If the whole economy goes well, also realty will go well. The least optimism I would expect with hotels, in particular those focused on free time and outside the main tourism destinations.

Many complaints and complaints can be heard about inability of the “West” to differentiate among countries in our region?!

We in Erste of course have such ability but unfortunately I cannot say that it is a general view. Even the rating agencies often are not able to differentiate the Central Europe and the Balkan. We are troubled about it and just for that reason we are preparing an analysis of conditions in the region in which we will provide more detailed information for those purposes. But hopefully it is improving, we have already recorded some suggestions.

Let us imagine that the crisis is already over. Do you think that its results will include also some more visible, quality changes in the real estate market?

Regarding the most important thing, i.e. the prices, we anticipate a certain wilt of the bubble which was before the crisis. I think that on average the prices of residential real estates will decrease by 10-15%, it has already, more or less, happened, and with some projects it will happen. For commercial real estates, such decrease should be higher, some 20-25% compared to the conditions before the crisis. It is a level at which their prices were adjusted after re-evaluation at the turn of the past and this year.

You have already mentioned that “after the crisis” you anticipate also an increase of the quality in architecture?!

I hope so. Developers cannot be so sure what will be acceptable for the market after the crisis, with which they will have to attract a customer. I believe that the market will no more be willing to accept everything - as it used to be in the past. And as I have already mentioned, also we want, as a bank, to contribute to that.

And how will Česká spořitelna enter the period after the crisis as a mortgage bank?

We are still interested in that market. This is proven also by the fact that interest rates of our mortgages are certainly among the most competitive. We are also preparing a new product - Golden Mortgage. Its interest rate will be by one per cent lower than the standard rate of ČS. The difference will be paid by the developer.

It sounds well, but nobody has probably forgotten that as ČS succeeded to quickly activate the mortgage market in 2001 and become its dominant player, it backed out from it some time ago in the same pace?!

It is so. We have reassessed our policy in the field of mortgages already during 2007. The reason was dissatisfaction with the quality of work of external contractors and the related profit of loans. The practical result of that move in the strategy of ČS was a relatively fast decrease of our market share in the segment of new mortgages. Others have mentioned that we are more conservative and responded similarly. Unfortunately, this was simultaneous with the start of the economic recession and then with the fast decrease in demand for residential projects. People started under the influence of bad news to be afraid of loss of employment and delayed their purchases. So much the more that the media started to supply them with prognoses about 20 - 30% decrease in apartments prices which did not occur and will not occur. Nevertheless - we are still active on the mortgage market and will remain to be.

Buildings are not purchased, but also are not built. Requirements of banks as to own capital and presale are not real, many people think, and in fact prohibitive. Why did banks change their credit conditions so radically?

In the case of commercial real estates, the background is to be found in the economic crisis, as to residential projects there are also the mentioned psychological factors. But it must be mentioned that we continue funding of developing construction, recently we approved a loan for project Real Estate Karlin Group, the office building Corso IIb. I have already mentioned mortgages, provision of loans continues only it is less intensive.

Nevertheless all and sundry makes prognoses that in a few years there will be nothing to sell and lease. Which will again result in an increase in prices - clients will not be happy about that for sure. Someone could call it a plot of banks and developers because high prices are profitable only for them?!

Do not see a plot everywhere. We must care, in own interest, for improved quality of the market, and therefore today we support those projects where we are certain that they will be successful on the market. There are less of them but the production has not stopped, projects continue to be built. And in relation with improvement of the overall situation and gradual recovery of demand, the meters will increase - the realty market has a strong ability of self-regulation which includes, by the way, also crises. Therefore we do not anticipate that some long-term vacuum could be on the side of supply. I cannot exclude a short-term spontaneous increase in prices but certainly they will level again soon.

Words are words but numbers are more convincing. How large is the amount of developers loans from ČS for the first half-year in year-on-year comparison?

Statistically, mortgage loans for construction to business entities are reported and among them there are developers loans. We provided such loans this year in an amount of 2 billion crowns during the first six months compared to 7 billion during the same period last year. Although it is a large decrease but also a proof that we continue lending money.