

Property development: how to substitute the missing bank loans?

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The question in the title was discussed by the guests of Stavební fórum's discussion breakfast held in Česká spořitelna's building on the Rytířská Street under the name "Funding Property Development Projects". At the most general level imaginable, we can conclude that a clear and universally applicable answer was not found, in spite of the numerous auditorium and the undisputed qualifications of the participants.

"Own capital of about 40% of the project value, pre-sales or pre-rentals of 40% or more!" - this is how Petr Merežko, of ČS, defined the current conditions for bank loans intended for property development projects. Compared to this, credits in the form of leasing schemes seem more advantageous. According to Jiří Kovalčuk, of UniCredit Leasing, own capital is not required from well-established, top-quality clients of good financial standing. However, the stricter conditions laid down by banks do not appear to herd their clients into the arms of leasing companies. As the discussion showed, there are several reasons. In the first place, there are not many parties interested in purchases or rentals today, so in this respect the requirements of the leasing companies can be met by few of those interested. There is also tradition at play here - leasing is usually used to cater to the clients' own needs, not their market needs. Another problem is that, as a default, the leasing schemes for properties are arranged for 30 years (the contract can be terminated under certain circumstances), while traditional property development projects count on significantly shorter terms. In addition, the user - client is not the owner of the facility during the whole contract term, which is a psychological problem to a lesser extent and a practical problem to a larger extent; among other things, it complicates other modifications and the valuation of the property, especially by subtenants. As regards other possibilities, Olga Humlová, of Salans Europe, more or less excluded funding possibilities within the framework of PPP projects: "The much needed political will to implement PPP projects and to implement them well is missing in the Czech Republic." Another possibility involves the so-called venture capital, in other words free funds whose owners are looking for their particularly advantageous valuation. This option, however, usually results in modifications in the projects' ownership structure and in higher transfers of revenues to the venture "creditors", while the word "higher" evenly applies to the prices of bank loans. "This money is usually more expensive and is associated with tougher conditions," concluded Merežko. Jan Topinka, of the law office Havel & Holásek, added that these types of capital and investors are almost exclusively looking for uniquely advantageous conditions either in the form of a very low price or vice versa - very high yields; and the market does not offer many projects of this type.

The stimulating and interesting discussion therefore did not seem too optimistic for property developers; substituting the very cautious banks in any way is not and will not be easy. Every potential investor or creditor urgently asks one particular question today: "how are the future revenues from the project secured?" The answer is very difficult, given the generally poor demand today. However, the participants of the discussion meeting heard one very practical piece of advice or call, from Humlová: "We all should together try to change to tax and legal environment to become more attractive for the investors."

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