

CBRE: Fewer offices will create better conditions for investors

Author: SF / Juraj Pokorný | Published: 12.01.2010

Last year's Report Market View 3Q 2009 by property consultancy CB Richard Ellis (CBRE) showed a slow-down in growth of new office spaces in the Slovak capital. In the 3rd quarter of 2009, they have increased by 31 450 m², which is a 19 percent drop compared to the previous period; the year-on-year comparison by 55 %. A total space of modern offices in Bratislava accounted for 1 278 000 m² at the end of 3rd quarter of 2009. The end-of-year estimate (1 345 000 m² an increase in office square metres by 53 763 m²) will be put straight by February results.

Bratislava: Previous growth replaced by stagnation

As far as the share of modern office spaces is concerned, the no. 1 position is held by the wider centre in the long-term - 48 % (611 549 m²), followed by the very centre at 24 % (363 378 m²), more remote parts of town are logically in the last place at 24 % (304 845 m²). The paradox is that 95 % new projects were built there. The maximum and minimum lease price oscillates on the counterpart of the three zones from 18 to 8 €/m²/month.

Flag projects of the 3rd quarter were Central Five (8 110 m² by Vinton Development), Omnipolis (10 100 m² by Omnia Real) and Tatra City (11 034 m² by Tatra Residence). A year-on-year fall of demand by 29,4 % was an inevitable symptom of the crisis. There were 30 preliminary occupancy transactions with an average area of 500 m². Their number was approximately the same, however, some doubts were brought by decreasing average size of occupied area by 3,5 %. A substantial change in comparison with 2nd quarter was a sharp fall in the interest in pre-lease.

An approximately equal share of occupied areas in the very centre and more remote parts of the city (24,4 % and 22,4 %) can be caused by competition fight, according to CBRE. The number of vacant office spaces accounted for 11,2 % in the Slovak capital; a fall of 0,3 % in comparison with previous quarter.

The expected increase of unoccupied spaces in the city is connected to the pressure on increased landlords' flexibility who will be forced to show the tenants more friendliness in the length of their lease. As no new construction was started in the 3rd quarter, CBRE analyses do not shut out absolute stop of all projects in the future.

"The market reflected the current economic situation in the 3rd quarter. Companies are very careful in their decisions about leasing new or extending current office spaces. On the other hand, developers (landlords) are trying to make the conditions more attractive, most frequently by a rent-free period," comments manager of Office Space Department in CBRE, Oliver Galata. And he adds that it is obvious that this situation will not last forever, all speculative construction has been ceased at the moment which will lead to the comeback of seller market. He thinks that this means that today is the best time to re-evaluate the lease contracts and moving to new office spaces.

Central and Eastern Europe: Innovative developers will prosper

The December CBRE research about office buildings construction trends in Central and Eastern Europe shows that a significant fall ongoing since the end of 2008 will bring a favourable influence in the long-term horizon and it will create more favourable conditions for investors into individual property

segments, including administration.

The total number of projects which will be completed within the next 18 - 24 months has fallen by 30 percent in comparison with 4th quarter 2008, due to suspending or cancellation of many already started investments. “These decreased construction plans have a significance at least for the mid-term outlook of certain markets,” said Pavel Schanka, Director of Central and Eastern Europe region at CBRE. This fall should contribute to a new balance on the markets, to creating a sustainable share of free spaces, and their possible lack in the Central Europe region sometime in the second half of 2010.

“Central European markets such as Prague or Warsaw will be interesting for investors from second half of 2010 when the interest of tenants will increase. On the other hand, for Southern Europe and Moscow, it is a signal of a rapid decline and the start of more sustainable growth scheme. The total interest has fallen by more than 30 % compared to previous years and pre-leased premises are used less, the current conditions are becoming a challenge for the developers. Business opportunities in the regions have not disappeared and the last transactions show that innovative developers who understand their customers will prosper. Office markets in Central and Eastern Europe offer a strong potential but the growth model is changing and only tenant-oriented solutions will gain the advantages of such conditions,” added Schanka.

The main reasons of such a sharp fall in construction in the Central and Eastern Europe regions, according to the CBRE analysts, are:

1. Insufficient financing of new projects and expensive loans.
2. A high level of pre-leased premises required by the banks for financing approval (a very hard condition in the time of a low demand for office spaces).
3. A high share of free spaces and projects right before their completion on some markets, this stops developers from new projects.
4. More developed Central European market offering lower incentive for speculative investments.

“The office space market in Bratislava has undergone a transition period and the results will show in 2010. Lack of new projects will be the cause of price increase in pre-leases. The only exception is Bratislava and tenants wanting to benefit from the current state suitable for concluding favourable businesses should act quickly,” closed CBRE Slovakia Director Joerg Kreindl.

Office projects under construction in Central and Eastern Europe Pre-leased / Speculative

Graph - CBRE

Illustration photo - author

12.01.2010 09:36, SF / Juraj Pokorný