

# Czech Republic: a year-on-year 64 % fall in property investments

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Last year's poor balance of investments on the Czech property market gets a rather optimistic character when looking at investment activities in individual quarters of 2009. The CBRE study mentioned earlier points this out. Last year's timeline clearly shows a slow-down in fall of investment activities, or to put it better - a clear increase in terms of number of transactions and their volume is visible. The first two quarters showed the lowest investments, this was influenced by uncertainty regarding development of prime yield and overall future of the investment market in the Czech Republic and abroad. The statistics started to look better in 2009 mainly thanks to several major transactions closed practically at the end of the year. Domestic and foreign entities invested in purchase of Czech real estate the amount of EUR 280 mill. in five transactions. This accounts for 80 % of the quarter average in the previous six years - a result at least encouraging at times of crisis.

## Foreign investors still in the lead

As said earlier, the biggest enticement on the domestic property market for the investors was the administration buildings sector. Purchases in this sector accounted for 90 % of the total volume of property investments. Sale of City Tower office skyscraper in Pankrác (btw. the highest commercial building in CR) sold by ECM to an unknown investor at the end of 2009, was the last year's largest transaction on the market (EUR 130 mill., i.e. CZK 3,42 bill.). It represented a third of all property investments made in the Czech Republic last year. Foreign investors represented 72 % of investments; the most active were - traditionally - German investors.

"After a very slow start in the start of 2009, a slight recovery occurred at the investment market in the second half of the year. 2009 was challenging for both the sellers and the buyers. Although it may have seemed in the beginning that it would be the year of opportunities for those buyers who can handle lack of comparable transactions and a high degree of uncertainty, concluding the transactions turned out to be very complicated due to instability," Katarína Turňová from investment department of CBRE comments on the figures and development.

## This year like the second half of 2009?

CBRE is convinced that the upcoming year will be as challenging as the previous for investors as well as sellers. However, volume of investments in Czech commercial property should correspond to the "speed" of the market in second half of 2009. Naturally, these expectations do not need to be fulfilled but the total development of the world economy in last months justifies certain, and a very slight optimism. The Czech economy should show a positive growth pace (after an expected fall of GDP by 4 - 5 % last year). Hand in hand with this, a recovery of the entire property market in the commerce sector should occur. The only sure thing is that the entire market and all involved parties - developers, potential tenants and investors - will be waiting mainly for more permanent signs of recovery of economy and consequently its property sector.

The question is how the market will be swayed by the crisis, or by the need to sell settle financial liabilities. In such sales "under pressure" time presses on the seller and the tactizing potential buyer has an advantage. "Potential buyers are still waiting. The hope that prices of such property will fall further and they will buy at a fraction of the price," says Libor Nevšimal from auctionary company Naxos. He

thinks, however, the sales under pressure are very disadvantageous in terms of price for the sellers. Nevšimal gives a real life example from last year when an operator of a complex where CZK 450 mill. of the invested resources were own and further 150 mill. came from a bank loan. The company got in red numbers and it was necessary to sell the complex. Its real market value was suddenly at a half which is something the owner does not want to accept therefore an outcome in the form of insolvency proceedings threatens. "Such cases happen often. Even the investors with sufficient finances for the offered complex are still awaiting. They can endure a half year to a year so that they will buy for a very low price," states Libor Nevšimal.

Graphs:

1. Volumes of investments in commercial properties in CR 1999-2009
  2. Investment volumes by quarters in years 2004 - 2009
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