

Kamil Kosman, ČS: I fear decline in quality and utility value of new residencies



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One of the fundamental phenomena of the residential market today is “patience“ of the banks. In other words: their willingness to prolong loans to developers where the sales are not going as planned. But every patience comes to an end, it cannot go on forever?

It cannot. However, to answer the question how far it will go, we would need the proverbial crystal ball. It depends on the economic development as well as on psychological factors. We are waiting for renewal of optimism. For the moment when people stop worrying about losing their jobs and a positive perception of the future will outweigh. Unfortunately, this hasn't happened yet. Macroeconomic development is not good enough yet to bring about such changes. We hoped for the last year to bring a turning point, so hopefully it will be this year.

When flats and family houses start to sell again on a larger scale, another problem may arise. It will be the “old“ residential construction, built before the crisis, ie. more expensively. Construction is going on and it is possible that the new offers will prevent sale of the pre-crisis projects, even more so the property developers are resisting to substantial price reductions...

I don't think this could be a major problem. Yes, everything has its price, somewhere and sometime the developers will be forced to sell below their costs - in case the crisis in sales continues. But there are other options. For example, unsaleable flats may be used in the residential rental market which is a scenario with which all banks operate. In addition, new construction relies mainly on lower prices, this especially requires lower costs. And these can be reached only if the construction works prices are beaten down by 10-15 %. This will be reflected in the overall quality of the project which will certainly be sufficient, but still lower, and then mainly the location - land is cheaper in those less attractive. Also, you need to add the cheaper residences under construction, moreover, their number is not particularly high. So I think that when the market is activated, the projects originating from the time before the crisis will get word.

Let us make a small detour, after all, you also pursued architecture in your original occupation. What do you think of the new residential construction, what about its quality?

On one hand, I believe, and not only me, that higher quality will be one of the selling points in the future. On the other hand, I fear that the pressure on prices, which is obvious, will decrease the

quality and utility value of the residences, particularly in the field of materials used. This will probably affect the medium construction sector the most. In the luxury sector, such compromises are not needed, and in the lowest sector quality itself never plays the main role, the price is decisive there.

However, low price is crucial. The market may get going again when the banks and developers take courage to a more substantial price reduction also in the pre-crisis projects?!

Customer expectations are too high in this respect and thus are not realistic. We expect price stability for the residential market this year, which includes prices fluctuation in the range of 3-5 %.

However, large or unrealistic expectations are reality. At the same time, the constant renewal of loans for unsaleable projects is forcing banks to make adjustments and thus lowering their profits. And we´re back at the beginning of our conversation: when is this situation going to become unbearable for the banks?

If the debtor - property developer has fulfilled all the conditions and performed all the other steps as set out in the loan contract, then banks actually prefer prolongation of loans - the problem is simply the state of the market. The impacts of this approach are not fatal for the banks´ balance sheets. For example, the adjustments you mentioned above are formed in the larger volume only in some cases, and only for the part of the loan that is not covered by a collateral, ie. value of the property itself. The problem may be the loans which are more than a year overdue because the value of the collateral decreases significantly.

Have you dealt more radically with any project, or loan?

We have a few cases which we address via debt recovery or where are close to such stage.

Let´s look at residential construction financing from the other side - what amount did Česká spořitelna provide in loans for its financing last year?

In 2010 we granted about 6 billion crowns for property development loans. This is a significant growth, in 2009 it was only 2.5 billion. And the volume of mortgages for inhabitants grew by 10 %.

Will there be more flat purchases than last year?

As I have said, we hope this year to be better than the recent years. However, the market would also benefit if the media stopped to inflame the negativistic mood. This has had a significant effect on the state of the residential market. I understand that readers or viewers are attracted by negative news, however, media have some social responsibility.

Yes, the media scared the potential buyers by dim prospects - at that moment the banks supported it by dramatically tightening mortgage conditions. And since then, they have insisted on 30 % of own resources, in principle. For example, in Prague this means that a young family - typical client - must have cash of around one million crowns. It seems that banks weren´t more optimistic than journalists...

It is our fault that we spoilt the clients a bit in the years before the crisis. Everywhere in Europe, 30 % of own funds is standard for mortgage financing.

Is there any change waiting in this respect?

I don´t think so.

And what about the banks' requirements for pre-sales in project financing - is it going to stay at the 30 %?

Yes, sometimes even more although I cannot of course speak for the entire banking sector.

By the way - there are rumours in the market that some developers ensure the pre-sale sort of "on their own"?

I have heard about it and we have come across a similar case in the past. Recognizing who books the flats and whether they are real or imaginary buyers, is not such a problem and we have recently tightened our checks in this regard.

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