Investors attracted by Czech David and Polish Goliath

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Will the Czech Republic bask in the limelight of investor interest, just as it was recently experienced by Poland? These and other issues are addressed by the latest survey by CB Richard Ellis, which is based on experience of developed markets of Western Europe and the rapidly growing Polish investment market. Comparison of half-year investment volumes with long-term average clearly shows that the investment volumes started to grow again both in EU-15 (“old” EU countries) and Polish and Czech markets after reaching the bottom in mid-2009. It is appropriate to mention that Czech and Polish property markets have many things in common (including a 50 % share of the investment transactions carried out through brokers) but are also quite divided which is mainly related to the size of economies of both countries.

Based on the results of a recent survey among investors carried out by CB Richard Ellis on the real estate trade fair MIPIM attended by 350 investors, economic growth is the main driver of future investment activities in real estate markets. This resulted in a shift of investors´ attention from countries such as Great Britain and France to the economically strong Germany. Central and Eastern Europe (CEE) region is also enjoying an increased interest – it is a reflection of economic interdependence of the region with Germany. The Czech Republic is also benefiting from forecast stable economic growth in the coming years.

CEE: only a slow decrease in revenues

High competitiveness of investors began to push for reducing income in the EU-15 in the second half of 2009 and is ongoing. However, reducing yields in the Central and Eastern Europe (CEE) markets was much gentler with the exception of the Polish market where prices of commercial real estate started to go up in the last quarters. Also thanks to this, the Czech Republic where yields are 50 basis points higher than in Poland appears to be an attractive investment opportunity. Yields in the CR are still near their cyclic peak, CB Richard Ellis survey therefore predicts their gradual reduction to continue in all sectors throughout 2011 and further in 2012.

Prague office stability

Real estate prices are influenced by both yields and rents. However, as rents in Prague are subject to only small fluctuations, movement of the yield curve creates a much greater pressure on real estate prices. Comparing prices of admin properties in Prague to E-15 countries and Poland, we can see that prices in

Western markets and in Poland grew much more rapidly. Especially in the Polish market, this is caused by high volatility of rents which reacts violently to market changes. Just a comparison: in Poland, rents during the crisis declined from their peak at 35 to the lowest 23 EUR/m2/month whereas in Prague it declined minimally from 23 to 21 EUR/m2/month. Thus, Prague market offers investors a relative stability of future revenues, unlike Warsaw.

While price increase in the EU-15 and Polish markets recorded certain slowdown in the fourth quarter of 2010, we are still expecting an acceleration of price increase in the Czech market. We believe that the impulse will be an increased interest of investors and subsequent impact on revenues as well as pressure on increasing rents due to growing demand for offices.

Main investors´ interest will focus on top-quality properties in 2011. Office market will remain in the centre of investors´ interest, however, it is also possible that the so far dominant position of admin buildings in investors´ calculations will be replaced by retail properties and interest in logistics properties should also be higher.

Czech-Polish differences

The prognoses mapping the present and future situation of real estate investment in the Czech Republic often compare the Czech market to the Polish one. According to DTZ, particularly these two countries separated from the rest of Central and Eastern Europe from investors and despite partial declines in investment volumes they have kept their unique position. Sales of properties worth EUR 1.9 billion occured in Poland last year as a result of increasing investment volumes. In the Czech Republic, there were fewer sales of properties last year, however, growth of investment is expected in both countries this year.

Unlike the Czech market where domestic investors accounted for 68 % of investment in 2010, international players remain dominant in the Polish market, according to DTZ. Apart from regular investors who were active in Poland also during the global financial crisis (especially German open investment funds such as DEKA, SEB or Union Investment) there are also Austrian investors who returned to Poland right at the start of 2011. Even more interesting is the growth in the number of “new“ investors mainly from Great Britain and Germany who want to follow up on their previous acquisitions in Poland. They very often show interest in shopping centres and well occupied shopping parks.

It is the “retail“ sector where impacts of the global economic crisis are most visible. DTZ data show that no new shopping centre will be opened in the CR this year but there will be several in Poland and property developers of retail projects as well as retailers themselves are riding an imaginary wave of exhilaration. Just during this year the size of modern retail areas will be expanded by 770,000 – 790,000 m2 and by 2013 projects with capacity of over 1 million m2 of leasable area are expected to open.

“Even if Poland is nearly four times as big as the Czech Republic in terms of population, a similar proportion doesn´t apply to the real estate market. It is however true that property development in the Czech Republic accelerated in all sectors in the previous years and according to many indicators Poland underwent the 2008–2010 crisis faster and more successfully than the Czech Republic,“ Lenka Šindelářová, analyst at Prague DTZ office, comments on the results. Just a comparison: at the end of last year 2.9 million sqm of space were available in Czech shopping centres, the capacity in Poland reached 10.1 million sqm.

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