

Residence: rental instead of sale?



Author: SF / Petr Bým | Published: 07.04.2009

“The decline in demand is real and definitely significant. In this situation it is necessary to look for various models how to cope with this unpleasant phenomenon,” Allan Jírek, of the property development company EUBE, comments on the current situation. Everyone is dealing with lower interest among clients, but the problems of residential development are the most visible today. We can still feel the reverberations of the selling boom in 2007 and before, but the conditions differ considerably. Those targeted by housing projects launched two or three years ago simply did not arrive. Either they do not qualify for a mortgage (which is the most frequent way to a flat now), or they do not want it, fearing for their future income, or they postpone the purchase, hoping for lower prices. This is what happens to “residential” Prague, where a third to a fifth of all new flats are not likely to be sold according to some estimates, and to the regions as well. That is why, at a recent discussion meeting of Stavební forum, two companies - the above-mentioned EUBE, specializing in non-Prague construction operations, and FINEP, for which the capital city is the dominant location, outlined the possible solutions to the stalemate on the residential market: rent the buildings that should have been sold individually, flat by flat.

Ideal solution for the market

“Today, when the number of potential buyers is falling, we see more people interested in rental housing,” Jírek says, and his words are confirmed by other information. Some of this information, mostly coming from real estate offices, even quantifies the increase of demand for rental flats at 20 to 30%. “We have already started negotiating this alternative with real estate agencies. Their recommendations almost always correspond with our ideas,” Jírek refers to the vendors. The same opinion was voiced by Štěpán Havlas, of FINEP, who points rather at the current condition of the flats and the demand: “The flats in Prague are generally old - people covet a higher quality of their living and right now there is a fear of mortgages or failed mortgage parameters in a certain segment on the market. The combination of these fundamental parameters clearly signals the potential for rental housing.”

Turning sale into rental may seem to be a genially simple solution similar to the proverbial cutting of the Gordian knot. A massive offer of new rental flats could inspire good response. In addition to investor purchases and subsequent rentals, the scope of which cannot be determined accurately and for example in Prague is estimated at 5 to 20% of new flats, nobody has introduced new rental flats on the market so far, with few exceptions. And in case of this type of purchase the developers would have to operate in reality (which cannot be said about the selling prices of some projects). “We consult the level of rents with a real estate agency that represents us in the respective project and knows the local rental housing market. The

price will be always primarily based on the possibilities of the market, not our needs. We cannot therefore go beyond the market price,” Jírek says, and Havlas adds: “Anything beyond the market price would not make sense.” If, however, the demand and the determination of the rental price are not problematic, some other problems have to be expected.

In the stage of serious contemplation

The response of banks seems to be particularly uncertain. The yield, which is crucial when a loan is provided, is obviously very different in case of sale and rental. But Jírek is optimistic: “We have tested the preliminary response of the banks and this idea invoked rather positive voices,” According to him, EUBE is contemplating two models or systems: flats from project companies would be purchased by the parent company or a special vehicle formed for this purpose. Jírek says the latter option already has more details: “This year we will start a closed investment fund. The rental of flats, purchased by the closed investment fund, is a typical product provided by the fund.” In FINEP, the financial contemplations have taken a slightly different course. “I expect that the financing model for this model could largely imitate the financing model used for administration buildings,” says Havlas. It is very hard to estimate the approach of the banking sector to such concepts. At the mentioned meeting of SF, its representatives were very restrained, but did not reject the notions. The transformation of the current contracts could be a problem. “Taking into account the lack of information, it is too early to talk about specific steps and benefits for the debtor and the creditor. If these issues are handled in legislation in all respects, we see here another possibility for solving debtor - creditor relationships,” K. Havlingerová, of Česká spořitelna, evaluated the conversion of sale into rental. The administration of rental houses seems to be a small problem. After the sale, the developers did not administer their flats in any way, they do not have the needed systems for this activity. One of the possible solutions is outsourcing. “I don’t expect now that we would create an administration organization. For us, it is much more efficient to purchase this service,” says Jírek. “We have some experience with administration activities; we have to deal with this problem in case of finished, yet unsold flats. We therefore have something to look back to, yet we do not plan to create an inefficient administration scheme,” Havlas has a similar view of the issue. Some other obstacles to the implementation of this idea, more or less new in the Czech Republic, may arise - according to some experts, the flats intended for sale should look differently from the flats intended for rental, but the question is if domestic clients, not really pampered, would perceive such subtle differences.

Both companies have already undertaken the first practical steps. “We are thinking about this alternative for two of our projects - Residence Marci in Lanškroun and Hradecký dvůr in Hradec Králové. We want to verify this intention here before we go through with it in a larger extent,” says Jírek, of EUBE. FINEP has not thought of specific projects yet. “These are real serious thoughts. To make sure a complex rental housing product works, it is necessary to carefully balance the structure of flats in the house, its technical equipment and the location. Today we are analysing the possibilities our portfolio of current and future projects gives us,” says Havlas. The latest study focused on the situation on the residential market speaks clearly - it is necessary to count on declining demand and prices. Serious thoughts as to what to do about it are therefore quite in place.

The issues of the current wretched situation of the real estate market in the Czech Republic will be the topic for a discussion breakfast on “How to Revive the Real Estate Market?”, which will take place on Thursday, 9 April 2009, in the conference rooms of Česká spořitelna, Rytířská 29, Prague 1. Together with other participants, Petr Merežko (Česká spořitelna), Štěpán Havlas (FINEP), Přemysl Chaloupka (Knight Frank), Evžen Korec (Ekospol) and Martin Skalický (REICO) will discuss the situation on the foreign and domestic real estate markets, the possible ways to revive the market and what a strategically thinking banker, developer or builder could do. For more information on the programme and an online application form visit the discussion [website](#).

Stavební forum

