

2009/2010: from quantity to quality?

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This year's last Stavební forum discussion meeting called „Property market 2009/2010: Balancing and Plans“ which took place in the Prague hotel Le Palais brought plenty of information and opinions which definitely do not see the state of the Czech property market as a catastrophe. The Czech development is undoubtedly undergoing a crisis which is not imagined or only a media build-up. It is the most visible in the demand for its products. „This year's investments in Czech property reached the value of EUR 245 million, only nine transactions,“ claims Zdeňka Klapalová from consultancy Knight Frank. While foreign as well as domestic investors bought property for one billion EUR last year; in 2007 such investments accounted for 2,5 bill. EUR. Residential property is not doing any better than commercial property. Exact figures about purchases of flats and family houses are not available, however, there has been a year-on-year fall of mortgages volume by nearly 40 %. Sellers talk about poor sales level amounting to a quarter or a fifth of last years' sales volume.

A Cleansing bath

„If it had continued as in 2007, the crisis would have come anyway,“ claims Petr Herman from Passerinvest Group hinting at recent unjustified developers' enthusiasm and banks' nearly borderless trust in their projects. He is not the first to point to the developer bubble which preceded the current economic recession - the property crisis only accelerated cleansing of the market. „Only quality developers and quality projects stayed,“ says Kamil Kosman from Česká spořitelna. The prevailing conditions on the market then were not normal. People without any experience or capital went into development. Despite all this everything was sold,“ Evžen Korec from Ekospol remembers the times past.

It is necessary to mention that starting in second half of 2008 the situation got tough not only for the worse but for everybody. The Czech development has been going through harsh times for some time, there are no leases, no sales. But the situation is improving already, many say. „The crisis could have been worse, I expect 2010 to be better,“ forecasts K. Kosman; and E. Korec supports this outlook with his own experience: „This year's first quarter was historically the worst period for Ekospol, since then we have been growing again.“ Aleš Novotný from Central Group sees the present similarly: „The shock came at the end of 2008 but the conditions improved during this year and we are counting with a continuing recovery next year.“

Future in „rough“ figures

Also the forecast by King Sturge expects 2010 to be better than the previous years for the Czech property market. Investments should not be restricted to office buildings like this year; they could reach the level of 350 - 400 mill. EUR.

The situation will be differentiated in each segment. Roughly only 70.000 m² - 80.000 m² of administration space will be brought to the Prague offices market. Two major projects are included - City West and Filadelfie. The demand for administration space will depend on overall economic situation, yet King Sturge are counting with a slight growth of unoccupied spaces, today it is about 10 %. „Companies are often leasing today,“ states Z. Klapalová. She adds that this can be supported by more and more leases as well as a growing number of lease agreements renegotiations accounting for 40 % of the realized demand in this year's third quarter, for example.

In comparison with the offices market, the logistics segment market development is worse. No new

construction is expected by the King Sturge analysts here, already built logistics parks will be extended depending on the current demand in 2010. The retail space market will be much less lively too. 46.500 m² of retail space were completed in the first half of this year. Alexander Rafajlovič from Cushman & Wakefield comments: „New shopping centre construction is showing a falling trend which should last until 2011. We will see a shift in developer activities from shopping centres towards shopping parks which are perceived as more resistant to the current economic situation, in the next two years.“ The recent report of consultancy DTZ shows free space for retail mainly in the sphere of furniture, hobby and electronics.

Residential: price fall stop?

Prices are more crucial in residential segment than in anywhere else - the crisis brought the largest shifts here. „Prague price of new housing dropped by 10 - 15 %, panel houses by up to 30 % and family houses by 10 %,“ estimates this year´s price development Otakar Šmíd from the property agent AAAByty.cz. Aleš Novotný from Central Group informed about opening of price scissors between new and „second-hand“ flats. However, he and other experts expect no more fall in residential property prices.

How many new flats were built this year can only be estimated - according to ABE (Association of Building Entrepreneurs) 35.000 new flats have been finished or will be finished this year (ABE estimates the residence production to 30.000). A slightly higher interest in flat leases is visible on the market at the moment. This is probably not going to lead to developer construction of lease residences. A lease „redesign“ of already built but hard saleable flats was considered at the beginning of the year. „Lease residences have a disproportionately long returnability, the developers need to free their capital from the projects in a considerably shorter period,“ explains Evžen Korec. According to Kamil Kosman from CS, the demand for owned housing will continue to be a dominant factor of the residential market.

The leading developers are not expecting some significant recovery of activities in regions. The chances for flat construction development are poor, according to E. Korec from Ekospol. „The purchasing power in regions is still low, lower by about 15 % comparing to Prague. This does not even cover the construction expenses in current conditions.“ Kamil Kosman however pointed out in this context that the housing demand exists outside of Prague, more for family houses.

Location=quality?

Much fewer sales are being made and developers they are therefore pondering over how to make their residential products more attractive and especially more competitive. The need to increase the quality of flats is even greater now that the investors disappeared from the market, these accounted for more or less a third of the realized demand, according to A. Novotný. The final consumers are naturely more discerning. „We must focus on real quality. This means less emphasis on detail, decoration and at the same time more sophisticated internal layout, functionality and rationalization of operation, especially energy costs,“ predicts Štěpán Havlas from FINEP. „Low-energy or passive houses are not the solution here, people want to air their houses. The energy can be saved through insulation or quality windows,“ adds E. Korec. He thinks that architectural standard will not be the decisive factor for market success in the medium price segment in the future. The residential developers have more or less agreed that good saleability of the flats after the crisis will depend on the price (ranging from 50 - 55 000 CZK per square metre of usable area) and naturally on the type and attractiveness of the location, this opinion was shared by residential developers at the SF discussion meeting. None of our largest residential developers - Central Group, Ekospol, FINEP - surprisingly did not declare their interest to actively create attractive locations (while for example FINEP is already trying it in their project Západní město in co-operation with the local authorities). Although many of their projects outreach the construction horizon of „only“ blocks of flats and they have a clear urbanistic dimension.

(Stavební fórum is preparing a round table of developers, architects, urbanists and sociologists for the first quarter of next year called „Residence - architecture - urban development.”)

Market „moderato“ of perspective

„The pendulum has reached its other absolute position. The Czech Republic has virtually taken a ride together with the Baltic countries and the Balkans,“ this is the comment of Petr Herman of current windlessness in many building segments. The ability to differentiate is improving in the West and today, the East, which was originally not differentiated, Poland and the Czech Republic are emerging as market perspective. This does not mean that quicker construction work will start at the previous speed. „It is unclear what is happening on the market. We don't know which parent company will close down which daughter company and when,“ shows Lenka Kostrounová the uncertainty regarding office buildings. The recession might be fading but the economic recovery is still fragile and especially uncertain. It is necessary to count with a mild, in music terminology moderato speed, in the construction segment next year. The crediting institutions, i.e. the banks, will determine this speed. „Czech Republic's disadvantage is the fact that it does not have pension funds which finance majority of construction elsewhere,“ Herman explains the insufficient sources of Czech Republic development funding. According to him, current conditions of the banks are understandable but too harsh in certain respects: „The loans are set in such a way that we are not able to repay capital from our operations and it forces us to sell.“ But the prices are not favourable for owners, on the contrary they play up to the buyers. According to Z. Klapalová, all the more the prevailing mood in the banking sector wishes to investment rather than to development, or construction, itself. The scope of developers will probably thin out in 2010 and the offer in all segments of commercial and residential property will be low.

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