

Commercial real estate: will economy or foreign “errors” help?



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January is the time of final accounts also on the property market. New statistical summaries of last year's development appear every day together with the outlooks for this year resulting from them. Last's year account in all segments of commercial property is not particularly brilliant, which was generally expected. (Only the balance of the retail segment is missing at the moment, however, its characteristics will probably be in accord with the overall development). The fall in construction as well as in implementation, i.e. sales and rents, is obvious. Nevertheless, a certain recovery was already visible at the end of 2009. Property analysts are now cautiously hoping that it will last and continue although they do not forget to include many "if's" and "when's" in their outlooks. These hopes are supported by the overall state of the economy - also not ideal, nevertheless, it is showing some marks of recovery.

Results and moods

"The second half was more favourable for the industrial and construction companies than the start of last year. We must not forget that industry fell dramatically by nearly 18 % in November 2008 and construction industry by 4 % so the comparative base is low." President of Commerce Chamber (Hospodářská komora) Petr Kužel commented on the November industry and construction industry results. Another already mentioned signal from the outside of better times for the Czech real estate is the situation abroad. Indices of business climate, expectations of company management in terms of production and prices are, at least in Germany, significantly improving and the dependence of Czech economy on the reflections, moods and decisions on foreign management is clear. The popular book by Tomáš Sedláček called "Ekonomie dobra a zla" (Economy of the Good and the Evil) recommends to observe the softer data and more the "atmosphere" when predicting future market development. The atmosphere is evidently swinging from pessimistic and sceptical expectations to "better future" hopes.

Half a billion this year?

CB Richard Ellis analysts speak of a year-on-year fall in value of investment purchases in the Czech Republic by 64 % in 2009, calculation by Colliers is 70 %. The difference is insignificant, however, the situation is obvious. Real estate is not being purchased, institutional investors have withdrawn from the Czech market (besides exceptions, e.g. the German open fund Deka) and have only partly been replaced by the so called private investors. These focus on smaller buildings (and they usually buy without bank

loans) and are still waiting for attractive opportunities, in many opinions. On the other hand, activities of this type of buyers are difficult to map; they usually do not want publicity (an illustration of this is last year's largest investment - purchase of City Towers in Prague - where the identity of the new owner remained secret) and so it is possible that they made more investments it has been publicly revealed.

The above-mentioned 400 mill. EUR, or 360 mill. EUR represents an almost catastrophic result in our conditions; more Czech commercial property was sold even in 2003. However, the statistics show (not only here) that the situation improved in the course of the year and that the interest of investors grew in time. The Colliers outlook therefore gives the amount of 500 mill. EUR for this year with a condition though. "The major factor will be the willingness of the banks to lend money to potential buyers with a lower value of own capital," says Karel Stránský from Colliers. And also on the willingness of the banks to tolerate from the owners and developers failure to fulfill conditions of bank loans without the pressure on forced sales, point out others.

Offices: few good signals

Almost a monopoly of investment sales - this is probably the only positive factor seen on the office buildings market last year. A year-on-year drop in construction by 50 %, an increase in unoccupancy rate by nearly 12 % (the "latent" unoccupancy in the form of subleases needs to be included; 40 000 square metres of these are offered in the capital today, according to Colliers). Also an increase in the difference between nominal and effective rent (up to 15-20 % says the same analysis), all this applies for Prague only because development, lease and investment activities were more or less zero in the regions. Unpleasant news is also the increase in subleased spaces, i.e. spaces rented by the tenants, which will continue to go up this year, according to Colliers.

The fact is that the forecasts for this year are even worse from some point of view. Construction was going on last year despite the crisis. 161 000 square metres of new office areas were marketed in Prague, according to Prague Research Forum data. The major share was held by three buildings City West and Prague Marine Office Center. Only 34 000 square metres of completed new offices are expected in Prague this year. This means a minimum construction and a further decline not only in comparison to previous years but also year-on-year. Newly completed buildings will be Filadelfie in BB Centre by "Passer", former Práce palace on the Wenceslas square, building in 26 Pařížská street and Lann palace opposite the Masaryk railway station.

On the other hand it can be said that also the office market showed quite a visible rise at least in the lease segment. In the third quarter the new realized demand accounted for approx. 10 000 metres, it was nearly 35 000 square metres in the fourth quarter. All forecasts are uncertain, according to Karel Stránský, everything will depend on overall development of the economy. The fate of nearly 500 000 square metres of office areas where lease contracts expire this year will depend on this. The renegotiations on the Prague office market account for nearly 20 %, i.e. one fifth of all its spaces.

Quick logistics

The efficiency of economy and mainly of its industry will be the main factor for this year's development of the "industrial" segment, mainly of logistics complexes. The reaction to market development can be fast compared to other market sectors (currently the new demand is generated only by business companies) as construction of new halls and warehouses takes on average only 6-8 months. It fell in the course of the year - copying the state of economy - but recovery of demand in its second half and the latest industrial production data where optimists can see an end of decrease in production puts the sector in a little more cheerful perspective. Arrival of a new developer (Omikron Group with smaller parks in Nupaky and Hostouň) at the times when they are disappearing brings optimism. "Restarting of the relocation process of companies from the West towards the East is also evident," K. Stránský points out another positive moment of the latest development in the area of property logistics. This is also a sign that the economic

”mood“ in Western part of Europe is better than in the start of 2009. If this current non-visible optimism of the business community there does not fade as a result of some unfavourable news, then not only the Czech logistics but also the entire Czech property market can look forward a year maybe not of prosperity but a year of a slow turn for the better.

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