

# Process of domestic real estate market stabilization continues



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## EcoPoint Office Center project with DGNB seal

Rastislav Badalík, managing director of EcoPoint Office Center, with his presentation of an interesting and technically unique project with the same name, offered certain dose of optimism in terms of Eastern Slovakia real estate development perspectives. Bratislava branch of the Austrian-German investment and property development company Bischoff & Compagnons Property Networks GmbH has chosen Košice for its implementation. “Some have labelled us as crazy, others as visionaries. In mid-term Košice seemed as a credible location. It is defined by experts as the second most significant developing region in Central Europe with expected growth of GDP creation in the period between 2009-2019 of up to 63 per cent,” stated Badalík.

The project was awarded silver Seal of Sustainable Construction DGNB from this year’s international fair Exporeal and it obtained the official certificate awarded to so-called blue buildings for nearly 30 million EUR. It involves several modern technical solutions and advantages rarely used in Slovakia:

- **Low-energy A-class building:** The three buildings with an area of nearly 16 thousand sqm offer health-friendly conditions connecting economy and ecology. Healthy working environment is created through 120-metre bores and heat pumps which run warm water through a system of concrete core into floors and ceilings. The results are stable temperature climate regardless outside temperature along with quality outer wall with low thermal transmittance down the cost of heating, or cooling of 70 per cent compared to the current standard in our country.
- **High space flexibility:** Common space is minimized to the lowest possible level while the project enables to establish either an open space with an area of up to 1,000 sqm or individual separated cellular offices offering flexible walls.
- **Underground parking:** with 363 spaces and further 34 on the surface.

Košice EcoPoint Office Center will offer space for 500 to 1,000 employees mainly from IT sector, call centres and other modern foreign companies with similar activities. The investor holds zoning permit and expecting to obtain construction permit in February 2011. At the same time, they are preparing a tender for selection of general contractor and negotiating with potential tenants. Favourable estimates show that project implementation may start in April-May 2011 and be completed within 12 months, i.e. during the year 2012.

## Košice offering developers other attractive locations

Construction of multi-purpose complexes in Košice will continue. Henrich Kuchár from IQS, s.r.o. believes that motives for investing in real estate currently relate to:

- immediate need (halls, production plants)
- expecting revenue in mid-term horizon (real estate co-financed by banks, or residential real estate)
- expecting growth of real estate value (property developers enter the venture with the risk of market development or they pursue investment activities in infrastructure).

Kuchár has also announced construction of Polyfunkčný objekt Ipel'ská ulica for administration and commercial purposes in Košice city district of Západ. The project envisages three aboveground of the building and 98 underground parking. The investor wants to sell the largest part to IT companies, consulting entities, lawyer offices and business. In the lowest floors, they envisage commercial retail outlets, restaurants and services. By spring 2011, the investor would like to obtain building permit and immediately start construction and complete it by summer 2013.

City of Košice Head Architect Martin Drahovský presented still unfinished negotiations on establishing the company Inter IKEA Centre Group. According to him, requirements of the development group and land owner haven't been harmonized so far, optimization of the space is also needed. Apart from this, there are at least two other attractive locations available in the Košice region:

- The logistics IMMOPARK location near the city district Pereš where the city authorities recently allocated further land. This would complement the original project by Immorent Slovakia
- The location outside the Hornád river, not far from the railway station, on the area currently filled with warehouses and dozens of small businesses. There is a possibility of multi-purpose usage including housing.

Drahovský added there has already been an agreement on exchange of land in the planned 2nd phase of the multi-purpose complex Cassovar. Other area is also perspective, nearby the US Steel premises neighbouring the industrial zone of INVA.

## Limiting approach of banks and lacking real estate legislature

"The willingness of banks to finance development activities has recently changed and depends strongly on the state of the market," said Michaela Kostačová from the financial group B.A.S.I.C.C. The domestic market saturated over the previous 2-3 years and real estate is not selling. This is also the current position of the bankers.

- They require a minimum of 30, often even up to 40 per cent of equity.
- Debt-service coverage ratio (DSCR) have increased above the value of 1.2 percent and in case of lease of commercial space, the latest requirement of the banks is a financially strong, guaranteed tenant in advance.
- Until recently the loan payback period was 15 years, today banks seek a maximum of 10 years, under certain circumstances even less.
- Banks have a "map of priority regions". If there is no place for a potential client, they must compensate their interest with something else. For example, good references from the developer, investor, tenant, by equity etc.
- Some banks apply, especially in major projects, the hedging demand, ie. supporting certainty of repayment by fixing the interest maturity throughout the entire repayment period.

Martin Lazík, General Secretary of National Association of Real Estate Agencies (NARKS) complained about missing legislative “background” with clear rules and conditions for the real estate market. The state leaves this to a sort of “self-regulation” of the companies involved in real estate. NARKS - along the lines with the rest of Europe - is trying to implement at least something. So far, they have published the relevant European standard and established a working group, together with officials from department the Ministry of Economy which should address the loopholes in this area.

When evaluating this year’s development of our real estate market, Mr Lazík recalled the stabilization of the flat and single-family homes housing market, stopping the decline in prices and their stability of several months. Gradual increase in buyers' interest shows an increase in the number of approved mortgage loans, according to him.

Reaching the level of the first half of 2008 will still take some time. Lazík would welcome if the current period of price stagnation lasted as long as possible for the real estate market in our country to recover. His forecast for the future year speaks about resistance of residential projects prices - without any special fluctuations and “landmines”.

### **Next year's forecast without any special „earthquake“**

Basic experience in residential real estate in 2010 did not change in particular: the price of flats - from east to west of the country - increased, with a peak in Bratislava. Certain “indicator” in this sector is mainly older flat prices. This was also confirmed by this year’s experience of Karolína Petrvalská, director of Košice RE/MAX Classic real estate office. While in case of sale of Košice 3-room flats rose from last year’s price between this year’s autumn sometimes by up to 15 per cent; rental rates remained unchanged, ranging from 350 to 450 EUR per month.

However, the increase of interest in housing was recorded especially in late summer and early autumn 2010, when the government announced its intention to amend property sales tax from January 2011. Differences also emerged in relation to the city district - the centre exceeded the selling price of EUR 2,000 and penthouses even up to EUR 2,500 per 1 sqm.

In general, the amount of residential property prices continue to be determined by 3 factors:

- conditions of banks for granting mortgages,
- buyer’s job security,
- total supply of real estate, including new construction.

However, there is overall lower interest in new construction. The reason is high material prices in time when the flats were built.

Rastislav Štalmach, managing director of ARCHEUS real estate centre, presented similar experience from Prešov. Poor sales of new flats, according to him, are also related to their bad layout: surplus of 3-room flats in new construction, although the market demanded mainly small flats. The segment of the home and villa housing recorded general lack of new buildings in the Prešov region. But according to Štalmach, one of the main causes is also shortage of plots for this purpose. They didn’t sell for long in anticipation of a price increase. This didn’t happen and in other months sale of larger land units has been recorded.

Next year's forecasts for the Slovak real estate market don't expect any particular “earthquake”. And Košice and its surroundings and can profit not only from growing foreign and domestic presentation activities under the head of the European Culture Capital 2013 as well as from real estate offers for developers and other investors. Even for them, there is a principle that fortune favours the prepared.

Visualisation - Bischoff & Compagnons (1-4), IQS Košice (5,6), IMMORENT Delta (7)

1,2,3,4 - EcoPoint Office Center Košice

5,6 - Polyfunkčný objekt Ipelská IQS Košice

7 - IMMOPARK Košice

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