

# Ostrava region: real estate market windless



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In general, better or worse availability of mortgages has been considered the main driver of the real estate market in the Czech Republic since 1995. The significance of mortgages drastically changed with the country's accession to the EU and today's mortgages have nothing in common with those before the accession - starting from this decade, the availability of mortgages has been growing considerably. From 2001, the Czech Republic experienced an immense boom of mortgages; banks were lending money virtually for anything. And the same is true for sales - everyone was selling everything. This resulted in a rapid and often exaggerated growth of real estate prices. The period of 2004 to 2007 was marked by a highly competitive bank market and fight for clients, especially in the residential segment. This situation prevailed in the whole Czech Republic until last year, and of course the described trends were the strongest in Prague and less intensive in other regions. However, the real estate market in Ostrava took a different path.

## Fall of the crown and floods - portent of crisis

1997 was marked by an attack of financial markets against the Czech crown, which started weakening, which caused panic among many people. This moment could be described as a portent of a crisis on Ostrava's real estate market. And the devastating floods in 2000 gave it the final blow. "Real estate trading in the Ostrava region virtually stopped, while interest in rentals increased heavily. The CZK exchange rate was such that the revenues from large projects definitely could not satisfy investors. Ostrava entered a real estate crisis that lasted until 2006. Property trading kicked off again in the north of Moravia with the arrival of the carmaker Hyundai to Nošovice," explained Ivo Gavlas, of the auction and real estate agency Gavlas, at Stavební fórum's recent discussion breakfast, focused on the past and future of Ostrava's real estate market.

In addition to mortgage availability and the Korean investment, gigantic in our conditions, another thing helped revive the real estate market in Ostrava - the projected change of the VAT rate. However, the local market surprisingly never suffered from a high unemployment rate and the related weaker purchasing power of its population, according to experts. Nevertheless, Ostrava became the "cheapest" city in the Czech Republic between 2004 and 2008; this was also caused by the low volume of trades in residential property, which mirrored the mass privatization of municipal residential objects. As a consequence, the need for living in Ostrava and the whole region was redeveloped to a certain degree.

# Stavební forum



## Approaching the crisis realistically

At present, the Czech real estate market could be inspired by equity market developments. Many experts see a parallel here. "Foreign experience is also important. We have to perceive what is coming here, and with what kind of strength. We don't have conditions for a complete demolition of the real estate market. But we have to be very cautious. For example key developers are reducing their projects today," says Pavel Kühn, of Česká spořitelna. According to him, many projects are currently underway that were born during the time of boom, but their number does not correspond with the actual needs and possibilities of the market. That is why the current situation absolutely differs from the past and all market players - developers, banks and potential flat buyers - could be said to enter the same risks. This should result in a general sobering and, according to Kühn, this change of thinking could be a way out of the crisis. His opinions are confirmed by Petr Handl, of RPG Real Estate: "We don't have problematic projects, yet we have to re-assess many things. If we want a new project, it has to be viable. We don't want another hole in the ground as our heritage in Ostrava."

### Limit for development: energy

Even if the real estate market in Ostrava kicks off again and reaches the recent higher volumes, sooner or later it will run against barriers that will inhibit its development. One of the limiting factors has to be taken into account at least for the following three years: lack of electricity. Discussions on development and new projects often forget that the region's energy capacities are already used at the maximum. "We don't have distribution networks and transmission grids," says Handl. The former "steel heart of the republic", whose energy network distribution system was quite in line with the huge concentration of heavy industry in the whole region, today suffers from an energy deficit, paradoxically. But this should not last long, at least in development dimensions. "We are creating a strong pressure on the implementation of the planned energy projects. If everything goes smoothly, the region should have enough energy by the end of 2011. Ostrava has currently a kind of time-out to take a breath and prepare for new projects," says Jan Dvořák, of Ostrava City Hall.

Stavební fórum's discussion meeting to be held under the auspices of Milada Emmerová, Governor of the Plzeň Region, and in cooperation with Association PPP on Wednesday, 25 March, in Hotel Angelo Pilsen, will focus on the development plans and investment opportunities in the Plzeň Region in 2009. The meeting will discuss investment activities in the region, European projects of the city of Plzeň, options for PPP projects and other regional development plans. For more information on the agenda and an on-line participation form visit the discussion web: <http://www.stavebni-forum.cz/diskuse2009>

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