

# Surveys, statistics, reports - how to understand them?



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## Consultants unite...

Investment consultancy and real estate surveys are not the only activities of consultancy firms. The portfolio of their related activities is usually broader. CB Richard Ellis, holder of the 2008 Best Real Estate Agency in Office Areas Award in Central and Eastern Europe (CEE Real Estate Quality Awards, Warsaw), has been chosen as a global consultant by two global corporations - the telecom Nokia (real estates, including transaction management) and the oil company StatoilHydro ASA (transactions and project management services). The teams of its agents are working in almost every bigger Central European city.

A continuous media campaign, which market competitors could ironically describe as self-praise, is also undertaken by another leading real estate consultancy firm - Cushman & Wakefield, which received two awards at the same event in Warsaw - 2008 CEE Real Estate Agent of the Year for retail and for industrial properties and logistics.

The modern methodology of surveying, collecting and evaluating statistical data, and the division of competencies between the individual companies are both sophisticated. To avoid any unnecessary duplicity, ensure better coordination, unification of working procedures and evaluation criteria and, last but not least, suppress any mutual competition, the three biggest real estate consultancy firms in Slovakia - Cushman & Wakefield (C&W), CB Richard Ellis (CBRE) and Colliers International - established the Bratislava Research Forum (BRF).

All three members of the forum have been operating on the real estate markets of Warsaw, Prague and Moscow for some time and have declared the same goal: provide individual clients and the general public with accurate, correct, consistent and transparent information on the office area market in the Slovak capital city on the basis of mutual sharing of information. They have chosen Bratislava as their next focus less than a year ago and were facing a difficult task: prepare a unified data setting, define fundamental terms anew and, compared to other cities, standardize data collection.

## ...developers fight each other

Unlike consultancies, which have determined a common strategy, development firms prefer competition

and rivalry. In the administration sector, where emphasis is given to top-quality furnishings at the highest European standard, some of these firms have hastened to publish different manuals on what the “true office A class” should contain. For example HB Reavis Slovakia, operating on the domestic real estate since 1993, started a two-month advertising campaign on 4 February 2009, aimed at “increasing the awareness of building standards in administration properties and provide measurable, internationally determined criteria that would help potentially interested persons evaluate the quality of the offered premises.”

HB Reavis even offers the unified classification of recognized standard A, B and C, introduced by the renowned non-profit organization Urban Land Institute, at its own webpage and adds, in a targeted press release: “The marketing slang of numerous developers is often trying to sell properties through non-existing categories such as B++, A+ or A\*. The incorrect assignment of such unclear symbols results in confusing the clients - potential buyers.”

Gábor Zászlós, the Board Chairman of TriGranit Development Corporation, views these attempts of its competitors with contempt. He said in a recent interview with Stavebné fórum.sk that to confirm the “highest standard available on the Slovak market” or the “most progressive administrative high-rise in our country” in case of Lakeside Park 01, he does not need approval or disapproval by his development colleagues because in reality TriGranit builds class A office property provides its clients all the things declared in the contract.



### **Pay attention to false optimism**

There is no need to believe blindly in statistics, mostly using a retrospective approach. When we wrote a short time ago that according to the latest report by CBRE, last year’s demand for administration and logistics had broken all records, it would be unwise to imply any positive projections from this statement. The reported figures represented the combined result of the pre-crisis boom and the inertia during the first stage of the oncoming recession, which matches the often evaluated Q4 2008. And since the typical working method recently has been an increased emphasis on figures and indicators monitored and evaluated in quarterly intervals, the reports sound falsely optimistic at first sight.

When it has been demonstrated that the new offer of office areas in Bratislava during the whole 2008 (180,000 square metres) showed an increase of 44% compared to 2007, it is more that certain today that the projected increase of additional 164,000 square metres this year, even given the hypothetically surviving enormously strong demand, will increase the vacancy rate from today's almost 9% to a double-digit figure. However, Jörg Kreindl, Chief Executive Officer of CBRE in Slovakia, considers the increased vacancy rate a temporary phenomenon and perceives medium-term and long-term development positively. "In 2010 and later we could be once again confronted with a lower percentage of free office areas," he tried to estimate the future progress.

### **When the most expensive means prestige**

According to a study by C&W "Most Expensive Offices in the World", the British capital lost the position of the most expensive city out of 202 main office locations in 57 countries of the world, after 9 years. The highest price of annual lease of 1 square metre of offices, paradoxically considered a certain form of prestige in this segment, is currently in Hong Kong (EUR 1.743), followed by Tokyo (EUR 1.649). London descended to third place (EUR 1.403).

From this point of view, the Czech Republic, and specifically Prague with the average cost of EUR 439 per square metre per year - "improved", having climbed from 38th position in 2007 to 27th in 2008. "There is a lack of top-quality class A office areas in the centre of Prague, which maintains a high level of rents in the long run. Last year, rents in the Czech Republic generally grew, especially because of the combination of several factors - higher construction costs, strengthening Czech currency and high demand. In spite of the economic crisis, this year we expect a healthy demand among local and international companies, but the tenant feel an opportunity to agree more advantageous conditions," explained Radka Novak, Director of Office Areas in C&W Prague.

On the contrary, Slovakia's position "worsened": from 39th position in 2007 to 44th. The value of costs of office areas is steady at EUR 304 per square metre per year in Bratislava. "Slovakia is still among cheaper locations, especially in Central and Eastern Europe, where Warsaw, Prague and Budapest offer much higher rents. It could benefit from this situation in the past if, in addition to low rents, it offers qualified workforce and government support to attract investors. The fact that it joined the Eurozone this year makes it easier to compare its costs with those on Western European markets. On the other hand, other Central European countries retained their local currencies and since these are unstable with respect to the Euro, the service fees denominated in local currencies are influenced by conversion," Andrew Thompson, Executive Director of Bratislava's C&W office, comments on the causes of the opposite trend.

As we can see, all you have to do is change your point of view, and a lack of prestige becomes an advantage...

Photograph - J&T Real Estate

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