

# Real estate investments: recession marches on

Author: SF / pb | Published: 14.04.2009

A report by CB Richard Ellis on the same topic also mentions only the two transactions, but sets their value at EUR 58.7 million. But this is not much of a difference. Quite obviously, Czech real estates are not too appealing for investors, in line with the global decline of real estate investments. The mentioned study by DTZ clearly enumerates the reasons for the lower interest. First of all, it is caused by a far more expensive funding and a more complicated approach of investors to bank loans, since banks today require co-funding in the amount of 40 to 60% of the invested amount and their interest rates are between 250 and 400 basic points above the PRIBOR rate. The second reason is that many investors are waiting until the value of properties goes down. Stuart Bloomfield, of CB Richard Ellis, comments on the developments on the investment property market in a similar fashion, but shows a sign of optimism: "The low market activity is affected by the global economic crisis, but we see the Jungmannova Plaza transaction as positive news, demonstrating interest in top-quality properties."

## Weak positive signals

International investors especially focus on top-quality properties in the centre of Prague, but the supply there is limited. On the other hand, domestic funds consider investing into properties outside the centre of the capital city, where very interesting revenues can be generated. "Of course, this lies beneath the much higher activity of many new, often Czech investors with enough money available. They obtain a competitive advantage over investors who use debt funding," Martijn Kanters, of DTZ, describes the situation on the domestic market. DTZ also monitors the development of foreign markets. According to its analysts, positive signals can be seen at least in two European capitals - London and Paris, which now attract investors with a sufficient liquidity, thanks to the growing revenues. However, this is still a long shot from good news: the year-on-year balance points at the continued decline in the volume of investment transactions.

## Where the prices will drop

The interest of investors in acquisitions is closely related to the development of real estate prices. It is hard to estimate anything at present, yet investment experts are trying. According to Cushman & Wakefield's analysts, developed real estate markets are currently halfway through the process of price corrections. Of course, these corrections will also mean an end to the price decline and their growth - in this regard, the US and the United Kingdom are said to be in the best position because the price cuts started there first and the price recovery should therefore commence there. Cushman & Wakefield estimates that this could happen at the end of the second half of 2009. France, and probably Germany as well, are also likely to see a slight improvement in demand and the related price stabilization, or even growth, but only at the end of the year.

"In Central Europe we expect further price cuts in the course of this year. The investors want certain income from their investments. In Central Europe there are, unlike in Western Europe, only few transactions that offer secured incomes thanks to long-term property leases. However, the estimates of a price revival in 2009 are generally optimistic, yet we expect more intense investment activities in the last quarter of this year," says James Chapman, of Cushman & Wakefield.

## Banks are still distrustful

The attitudes of banks will, to a large extent, decide on what will happen on the real estate markets in the

Czech Republic and Germany in the near future. A survey recently conducted by Cushman & Wakefield among the 83 biggest European banks is not too optimistic in this regard. 59% of the banks are closed to new real estate transactions; in practice, it means that they do not provide loans secured by commercial properties. In addition, many of those willing to accept commercial properties as security insist on many conditions for funding. And the ratio between the amount of the loan and the value of the pledged property is also lower - the banks are heading for a much lower risk in their acquisitions. In the United Kingdom, this ratio has lowered since the times before the economic downturn - from 80 - 85% to 60 - 70%, and in Western Europe the decline has gone from 85-90% to 50-60%. Ed Daubeney, of Cushman & Wakefield, comments: "We think that there were only fifteen banks among the respondents that actively provide loans to new clients, without making excessive requirements." And the situation is similar in the Czech Republic. Banks are only interested in transactions underscored by long-term lease contracts for the properties in well-established locations, with a sustainable level of rents and financially healthy and strong tenants. Added to this is the fact that, all things considered, banks prefer smaller loans; the safety limit is usually set at EUR 40 - 50 million.

On a global scale, investments into commercial properties declined by 59% to USD 435 billion last year, from the record-high USD 1,050 billion in 2007. The analysis Cushman & Wakefield's Investment Atlas 2009 envisions that the volume of investments will continue descending in 2009 to USD 412 billion.

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14.04.2009 14:26, SF / pb