

Jiří Pácal, CEH: differences between catalogue and real prices are dramatic

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If we compare them to those prices offered by the property developers and also on the secondary market, then your claims do not sound very realistic.

And that is exactly the difficulty. Today we have two worlds on the residential market as far as prices are concerned: virtual and real. The first one comprises the offers by developers and real estate agencies. The second one can be found at the Land Registry records which we, unlike others, visit. So we know the real selling prices. And I warn you that the differences are dramatic. I will not mention any names but there are flat developments in Prague which declare prices at CZK 180 000 per square metre but they sell for less than 100 000.

So if we do not succumb to the illusion of what's on offer we can buy at a good price?

Of course.

Then forecasts which predict a more significant recovery of demand already this year could be fulfilled and then even prices could go up again?

Property developers, real estate agencies and banks are hoping that everything will turn for the better for them soon. But it will be more complicated. These forecasts assume that there is - not a negligible - retained demand. That basically there is a relatively high number of people who have enough money to buy flats but they are waiting for better, i.e. lower prices. And when they realize this will not happen, they will start to buy anyway. I do not believe this scenario.

Why?

Firstly, the population aged between 25-32 years is much lower, this group includes the main group of potential buyers of new-built flats. The strong age-groups have gone and have been replaced by weaker ones. Secondly, minor investors have left the market, they represented a large considerable portion of the demand in the past. They used to hedge their bets on a sustained growth of flat prices and of course also growth of their rental income. However, prices are falling and so are rents. Thirdly, the crisis radically changed thinking of young generations. Several years ago it was "trendy" to buy a flat with a mortgage, they had no problems getting good jobs and related income levels. It is different today. Even university graduates are not sure of their prospects, companies are not competing for them. And in such a situation, a fifteen or twenty year financial commitment and fixation to one location is not very attractive for young people. In addition, banks are not as willing to lend as in the past. All these are long-term factors, a radical turn cannot be expected. To put it differently: the hope for price growth and a significant recovery of construction in the foreseeable time-period are unrealistic.

The reason might also be because flats are still considered as a luxury commodity in the Czech Republic?!

That is true. At first sight, nearly everybody seems to own a flat in Prague, the exact number is 270 000 but the vast majority originates from the privatization of flats. New projects by developers account for mere 55 000 flat units. Let us add a further estimate of 15 000 flats in the regions, e.g. in Ostrava mere

two thousand flats were built in the last ten years. Let us divide these figures by twenty years. We get nearly zero, almost nothing.

And you are saying that there will be less construction still ...

Of course, there will be construction. Although we have enough flats, around a tenth of the flat capacities is in a demolishable state. But on a commercial basis, there will be construction but at a price that the market is willing to accept.

What prices are those?

Let us talk about Prague and final prices. Larger projects in standard locations are estimated to sell at CZK 35-40 000, smaller projects in better locations can reach prices of CZK 70-80 000.

The developers would probably consider this economically unviable. It is possible to build at such prices at all?

Taken objectively - yes, of course. If flats can be sold for around CZK 27 000 per square metre in Poděbrady at a profit, why couldn't this be possible in Prague?

Probably because of expensive land.

That is true. A large number of projects represent economic nonsense mainly due to the price of land. There are projects where the land price is reflected at CZK 20 000 per square metre into the final price. Then the overall prices obviously increase. This cannot continue forever. Residential property developers need to start behaving economically in a rational manner. But this is - in my opinion - what many will not manage to do.

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I know that I will not be praised for these words by many, but especially residential development has gone wild in its heyday years. It's not only the purchases of overpriced land but their costs were nonsensically high in other areas too. It's not so long ago when they were competing for managers with banks, spending was high and money was spent on nonsense. That's why there are tears now over the current banks' requirements regarding developers' own capital. Where has the developers' money from better times disappeared? To put it slightly impolitely: it has been squandered needlessly. To change this will mean to change the mentality of the development companies' managers. And this will simply not be possible in many places.

Mr Pácal, you are a real estate media star but little is known about your company - Central Europe Holding?

Briefly, we trade, invest, rent property and we also monitor and analyze the market, a substantial portion of our business are actually advisory and consultancy activities. Thanks to the lastly-mentioned activity we have a large amount of information at our disposal. I think that our database is unique.

What is the CEH's real estate portfolio today?

We own a total of 15 buildings comprised of 20 000 square metres of rental flats and 4 000 square metres of non-residential space.

Do you intend to expand your portfolio?

We would like to. However, there is nothing to buy.

That sounds a little strange at the time of demand crisis?!

But it is so. There are approximately 60-80 blocks of tenement houses on the market in Prague currently, however, at economically unacceptable prices allowing yearly yields of around 1-2 %. The sellers are usually foreigners, mainly Italians, who no longer consider the Czech market attractive and they would like to leave. But there is no urgency to sell and they keep the asking prices at the pre-crisis level. Only those frightened of inflation buy at such prices.

Who is the owner of CEH?

Two individuals - one of them is me - and a Swiss investment company.

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