Globalization of Real Estate Markets in Central Europe

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ABSTRACT *The process of globalization is increasing competition between urban areas for the attraction of investment. Within this context the paper initially highlights the impact of global change on city economies linking this to international investment within the real estate market. Factors influencing diversification strategies and international investment activity within property markets in central Europe are considered relative to a range of performance criteria. Office markets in Prague, Budapest and Warsaw are forwarded as case study examples to assess the degree of maturity that is occurring in these former socialist cities based on the activity of investors and end-users including the extent to which there are dual markets operating for local and international actors.*

1. Introduction

Property is recognized by both institutional and private investors as being an investment medium, the relative attractiveness of which can be evaluated against other asset classes. In particular property provides a means of reducing or spreading risk by diversifying the asset base of a portfolio either directly or indirectly into real estate. Normally this is into different sectors of the commercial property market though diversification benefits may also be achieved by investing internationally. The removal of barriers to capital movement and increasing information flow has promoted real estate as an international investment asset. In this respect the increasing attention given to the political and economic integration of Europe has stimulated a growing interest in the potential of property investment markets within central European cities (Berry & McGreal, 1995).

Structural trends towards the formation of the global economy and the process of readjustment to the evolving world order is having major impact upon the former planned economies of central Europe. Whilst these countries have experienced considerable turmoil in embracing the realities of a market economy there nevertheless has been significant international investment within the region. This has been instrumental in the establishment of real estate markets particularly within the Czech Republic, Hungary and Poland.

This paper using Prague and supported by Budapest and Warsaw as case study examples seeks to investigate the extent to which central Europe is becoming attractive to international

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investment in the real estate sector. The investment market in this region has the potential to appeal to institutional and long-term investors looking to add to their existing portfolios by including relatively high yielding property. In particular the analysis concentrates upon the office sector, as the most international of the property asset classes, examining its development through a range of performance indicators. By focusing upon case studies the paper utilizes the results of interviews with investors, developers and brokers to identify constraints on international real estate investment supplemented by published data sources. The research specifically considers the office market in capital cities as these are more likely to reflect the impact of globalization relative to other cities in central Europe with weaker markets. Conclusions address the stage of development of property markets within the case study cities including the extent to which the market is in a state of transition from emergent to mature conditions.

2. The Nature of Property Investment, Diversification, Maturity and Globalization of Markets

Property investment is concerned with the commitment of capital to secure future benefits which may be in the form of capital gain, income flow or a combination of both. Since the 1970s there has been major growth worldwide in investment in real property, based on the belief that property within a multi-asset portfolio will provide security of capital and income in an uncertain economic environment and also produce relatively attractive returns (Adair *et al.*, 1995). Indeed the primary reason for including property as an investment asset is to achieve balance in the portfolio, the traditional view being that property is a long-term low-risk investment with potential for diversification (Rydin *et al.*, 1990).

The need to balance returns against risk has promoted the development of diversification strategies. However, in structuring a portfolio, McNamara (1993) argues that institutions are not entirely free agents in terms of their investments and are restricted in their ability to take risks. Traditionally property is seen as a means of diversifying the asset base through investment into direct real estate. Removal of barriers to capital flow, increasing information, information technology (IT) developments and liberalism in financial markets over the last decade has made it easier and more attractive to diversify internationally with global investment strategies frequently seeking to target countries in different phases of the economic cycle. Whilst it is not the objective of this paper to assess whether property acts as a good diversifier, it should be noted that some researchers hold opposing views on this issue arguing that cross-border property investment produces few diversification benefits.

The significance of international investment flows has been increasing since the 1980s and in spite of a temporary slow-down in the early 1990s global flows have risen to unprecedented levels. Indeed, over the period 1993–1995 foreign direct investment inflows grew by 40% to $317 billion (Economic Intelligence Unit, 1997) primarily due to the expansion of regional integration, multinational company competition, liberalization of investment regimes and worldwide privatization. In central Europe, foreign direct investment inflows more than doubled to $12.9 billion over 1994–1995 and in relative terms increased from 0.2% of world inflows in 1990 to 4.1% in 1995. Cumulative foreign direct investment (FDI) inflows over the period 1989–1996 into the Czech Republic, Hungary and Poland are $7,120, $13,260 and $5,398 million respectively (EBRD, 1997). Whilst sectoral disaggregation of these statistics is problematic, in a property context there can be significant overlap in real estate global capital flows in terms of foreign direct investment and portfolio investment.

The attraction of investment flows is strongly influenced by the comparative advantage which city markets offer in terms of their relative importance. Furthermore with the globalization of financial markets and changes in the legislative framework for institutional investment, potential advantages are likely to materialize from pursuing a global investment strategy (Solnik, 1991). Geurts and Jaffe (1996) suggest that as financial markets rapidly globalize and become increasingly integrated, international diversification will become more attractive to institutional investors. Indeed there is general agreement that international real estate investment will continue to make an important contribution to institutional strategic decision making as market participants become more familiar with the available investment opportunities in a range of real estate markets in Europe and as the quality of property performance information improves. In central Europe the gradual transition to a market economy is reflected in institutional reform, a core element of which is to facilitate external investment flows given that domestic sources of funds are in many cases non-existent. Consequently in response to the globalization of investment markets, local property cultures in central Europe are transforming to suit the practices and requirements of institutional property markets.

Alongside developments in global networks, the lowering of national barriers through international trade agreements, the formation of trading blocks and interregional alliances prompted by the deregulation of markets within and between countries is further increasing the opportunities and challenges to cities as economic entities. Deregulation at the national level has been accompanied by re-regulation of the economy at the international level through the establishment of trade areas in North America, Europe and the Pacific Rim (Newman & Thornley, 1996). In Europe, the Single European Market has brought about a new competition placing even greater challenges upon cities within the former command economies of central Europe. The transition to an information economy is changing the relative importance of cities by creating opportunities for growth and prosperity but is also increasing their vulnerability to competition from other cities.

Linked to the effects of global change on city economies is the ability to develop the institutional capacity to capture economic flows (Brotchie *et al.*, 1995; Healey *et al.*, 1995). Amin and Thrift (1994) argue that the economic success of global centres of agglomeration is strongly dependent on the ability to offer institutionalizing processes to support the economic life of firms and markets; to attract flows of investment and entrepreneurship; and to offer a variety of external economies of scope and scale to existing and potential business. With global cities becoming repositories for the concentration of economic power and investment flows, the challenge will be in overcoming the inevitable gap in prosperity between cities in western and central Europe. Whereas the more affluent cities will be able to improve their service provision and infrastructure base, the less affluent cities in central Europe are faced with an ageing infrastructure, poor environmental conditions, sub-standard stock, inflexibility in local decision making and limitations in facilitating the property development and investment processes (Wegener 1995). In central Europe, local markets still lack the depth and liquidity for large-scale investment due to the absence of a broad base of local institutions committed to long-term investment. Likewise domestic banks often lack the capital resources and expertise to structure complex financing packages necessary for key infrastructural projects. Indeed specific characteristics of post-communist cities and their different profile from western European counterparts pose major challenges regarding their integration into the global international economy. The particular situation of cities like Prague, Budapest and Warsaw and the kind of position they are competing for within the urban hierarchy in Europe has implications for the attraction of both investors and end-users.

At a strategic level Worzala and Bernasek (1996) consider that the value of most real estate is derived from local market conditions with local constraints determining the supply, the demand and the value of property. While investment in property is frequently based upon transactions involving the existing stock rather than new projects, the latter creates the image of a vibrant city equipped for the needs of modern business activity. However, market choice can be limited due to institutional constraints including planning policy and procedures with a city's planning system capable of portraying positive or negative images to potential investors ranging from flexibility to bureaucratic inefficiency. Cities require planning systems which are responsive to market conditions and capable of delivery under changing demand and supply-side pressures reflected by market performance indicators and influenced by factors such as lease arrangements, liquidity, transparency and tenant demand. Within central European countries the impetus arising from deregulation and privatization has stimulated the emergence of real estate markets, their rapid development and internationalization.

Concerning the latter, the internationalization of urban property markets can be considered to consist of two distinct phases. Firstly, the occupational market is internationalized by firms either as tenants or owner-occupiers with increasing activity by different actor groups including developers and real estate consultancies. Secondly, the investment market becomes internationalized as a consequence of institutions making strategic investment decisions in relation to their portfolio. Within central European cities the first phase is characterized by a network of actors in the international section of the market replicating that of western cities, but with little involvement from domestic agents. In this respect globalization is mostly driven by external actors including property developers, investors, brokers/agents, and the users of property with the creation of a market segment of an international nature but with low participatory levels by local companies. Indeed dual markets openly operate in cities such as Prague with a local market supplied by local actors and an international market with international actors.

Investors require a clear understanding of how property markets emerge, mature and perform over time. For example the degree of maturity of property markets may range from a relatively simple form in which the real estate sector is poorly developed to a sophisticated state where the property profession operates in markets which reflect complex requirements for use and investment. In influencing this degree of maturity there is broad agreement that urban dynamics and real estate market activities are strongly influenced by economic structures (Jones Lang Wootton, 1992). At the immature stage of economic development and urbanization the most identifiable real estate activity is construction. As economic, cultural and technological interactions become more sophisticated and the service sector expands to facilitate financial processes, the range and complexity of market activities increase. Although interaction between economic development, urbanization, urban form and real estate product can be hypothesized, there is not necessarily a simple, direct relationship between the stage of urban development and the advancement of real estate markets. Indeed the history of the socialist city suggests the opposite. Furthermore as argued by Keogh and D'Arcy (1997) there is a circularity of argument in that to understand urban change the constraints imposed by the operation of the property market must be understood, while at the same time there are equally valid arguments that to understand how and why the property market process in individual cities has evolved it is necessary to understand the pressures for economic change.

On the issue of property market maturity, Keogh and D'Arcy (1994) look wider in terms of the ability of cities to accommodate a full range of use and investment objectives and to tailor property rights to specific individual requirements. Furthermore, in a mature market which facilitates trade in property interests, it must also be possible to adjust the stock of existing interests over time to equate with the changing needs of user and investor requirements and to facilitate the development process in responding to opportunities under different market conditions. The other principal characteristics of property market maturity which Keogh and D'Arcy (1994) specify include the existence of a sophisticated property profession with its associated institutions and networks. In this context the maturity of the market at a spatial level is further influenced by the degree of openness whereby the availability of market information encourages national and international participant behaviour; allows a free flow of

Table 1. Macro-economic indicators for Czech Republic, Hungary and Poland

Economic indicator	Czech Republic	Hungary	Poland
GDP per capita ($), 1992	$2717	$3610	$2199
GDP per capita ($), 1996	$5131	$4361	$3472
Annual GDP Growth (%), 1996	4.1%	1.0%	5.5%
Consumer Prices, 1996	8.9%	23.5%	21.2%
Short-term interest rate, 1996	10.5%	23.0%	22.0%

Source: adapted from Economist Intelligence Unit, 1996 and Jones Lang Wootton, 1997c.

capital between locations; and facilitates the creation of portfolios diversified geographically and by asset class. The provision of information networks and the availability of market information are considered to be essential attributes of maturity. However given the considerable degree of diversity in market practice within Europe, a greater awareness of the respective strengths and weakness on matters relating to planning, legal, tenure, taxation and valuation procedures is required (Berry & McGreal, 1995; Adair *et al.*, 1996).

Based on a comparative analysis of mature and emergent markets, Keogh and D'Arcy concluded that conceptually property market maturity does have fundamental limitations. The analysis shows that cities with a comparable degree of economic development, urbanization, economic and political maturity, such as London and Milan, can have property markets which are profoundly different regarding the traditional criteria of maturity. Moreover, the analysis demonstrates that market maturity does not necessarily imply efficiency which suggests that markets perceived to be mature may not represent the most effective model to be followed by emergent markets. Indeed there is no universal evolutionary path to be followed by all property markets, rather market maturity should be considered in terms of the relationship between local property market cultures and the efficiency of market processes in the context of historically specific development paths.

3. Central Europe: Case Studies

The evolution of property markets within central European countries is an integral part of the economic transformation which is taking place in the transition from command to market economies. Indeed the performance of property markets is closely interwoven with wider influences in the macro-economy. Although the case study countries of the Czech Republic, Hungary and Poland have made significant advances in per capita GDP since 1992, this has been achieved against a backdrop of high rates of inflation and high short-term interest rates (Table 1).

The transformation from the socialist city characterized by an absence of a land market, fixed prices and nationalized businesses (Musil, 1993) to the post-socialist city has been facilitated by commercial property development which in turn has substantially contributed to the reorganization of land use within central European cities (Sykora & Simonickova, 1996). Demand for property in particular office space has generated development in central city and some inner city locations promoting economic revitalization with consequential effects upon land use patterns. With globalization, cities in central Europe are performing gateway functions, indeed Prague, Budapest and Warsaw are major entry points for foreign companies seeking to expand their operations (Drbohlav & Sykora, 1997). Hungary was the first of the

Table 2. Stages in the establishment of real estate markets in central Europe

Stage 1	Transformation period (1989–1991)	Sharp rise in real estate prices Liberalization of state prices and rents
Stage 2	Entry of foreign firms (1992–1994)	Shortage of internationally acceptable office property Commencement of major developments High capital growth High rental growth Increase in demand
Stage 3	1995–1998	Substantial increase in supply of office property Entry of domestic investment and development firms Decreasing gap between demand and supply

central European countries to re-establish the market environment placing Budapest in a prime position regarding the attraction of foreign firms and investment, with Prague and Warsaw following. In each of these cities the property market was quickly established at the beginning of the transition with privatization programmes and policies concerning the liberalization of prices and rent deregulation acting as stimuli to the market. Furthermore liberalization of international trade opened up the property market to foreign demand for real estate.

Ghanbari Parsa (1997) argues that the real estate market in central Europe has evolved through three distinct periods (Table 2). The first, between 1989 and 1991, was a period of transformation when a sharp rise in real estate prices occurred as a result of the sudden liberalization of prices and rents and the demand for space caused by the influx of foreign firms establishing a foothold in the local markets. The second period (1992–1994) was marked by the construction of a number of major development projects of acceptable international standard by foreign investors. Office (and also retail) developments attracted high rental returns and produced capital growth, at higher rates than that achievable in western European capitals many of which were experiencing a downturn in the market during this period (Berry & McGreal, 1995). The third phase starting in 1995 has been characterized by a substantial increase in the supply of office and retail space as a result of the completion of a large number of developments.

Political and economic reforms have established the necessary legal and material conditions for the growth of property markets in the case study cities with demand from international firms expanding into the region and stimulating the growing domestic business sector. The lack of supply particularly of prime quality office space influenced the development of new and refurbished commercial property in central city locations with most of the developments financed and traded by international companies which acted as both significant producers and consumers of commercial property. For example Sykora and Simonickova (1996) point out that by the end of 1994, 26% of all registered firms in Prague were in international ownership showing the high degree of foreign representation typical of the first stage of the globalization process. However by the mid-1990s a shift in demand from new companies to the expansion of existing firms reflected a movement towards the next stage in the process and a maturing of the market. In spite of this there is little evidence of a property investment market emerging, with no significant transactions of investment quality property and highly limited involvement of institutional investors in the market. Reasons forwarded for the immature nature of the property investment market include the small number of investment quality buildings and the perception of high risk. The latter more than outweighs the potential attractiveness of high yielding property investments.

Table 3. Summary of office markets: Prague, Budapest and Warsaw

Property market indicator	Prague	Budapest	Warsaw
Total office stock, 1996	2 million m^2	3 million m^2	3 million m^2
Modern office accommodation, 1996	345 000 m^2	470 000 m^2	300 000 m^2
Office take-up, 1996	100 000 m^2	90 000 m^2	n/a
Office supply, 1997	117 000 m^2	50 000–75 000 m^2	90 000 m^2
Prime office rents, 1997	50–60 DM/m^2/month	45 DM/m^2/month	80–90 DM/m^2/month
Vacancy rate, 1996–1997	3%	5%	1%
Yield	10–13%	10.5–12.5%	12–15%

Source: adapted from Jones Lang Wootton, 1997a, b, c.

3.1 Prague

The most important impetus underlying the development of a commercial property market in the Czech Republic has been privatization coupled with the rapid liberalization of prices. The former led to the redistribution of state assets to a large number of private owners and in the case of real estate the restitution process returned land and buildings to persons (or their heirs) who formerly owned the property prior to the communist period. Restituted properties have been freely sold on the property market since 1991. However, market growth has produced tension with demand for commercial space concentrated in central Prague where many buildings, the streetscape and overall character of the historical centre is protected. As the availability of vacant plots for new construction is low, the acquisition and refurbishment of existing buildings for commercial usage has been a key characteristic.

The historical core of Prague (districts 1 and 2) contains over half of the total city office stock. Currently, about three-quarters of all floorspace in the historical core (Sýkora, 1995) is in non-residential use with the process of residential decline having accelerated in the past 5 years. In 1995, the total stock of business space in the city was estimated at about 2 million m^2 (Incoma, 1996). By the end of 1997 there was 458 000 m^2 of modern office accommodation of international quality which had entered into the market since 1992 and of this space 197 000 m^2 was located in newly constructed commercial centres with the remainder in refurbished buildings. In the late 1990s, the annual supply of offices in new buildings is expected to reach 50 000–70 000 m^2 and together with the space generated by refurbishments will create a total annual supply of 100 000–130 000 m^2.

Demand for office property stems from two sources namely foreign companies seeking a presence within the Czech Republic and the development of the domestic business sector particularly in the fields of banking and other financial services. Developers reacted to growing demand for commercial space by refurbishing old office, industrial and residential buildings and constructing new projects. During 1991–1992 transactions on Prague's real estate market were mostly refurbishments frequently not meeting required standards. Nevertheless, due to a high scarcity of available commercial space, extremely high prices and rents (up to 100 DM per m^2 per month) were achieved. During the second half of 1993 the first large new developments and high quality refurbishment projects were realized helping to stabilize rental levels in the office sector at about 50–60 DM per m^2 per month for new offices and refurbished space in prime locations (Table 3).

A substantial portion of the office space that has been brought onto the market is refurbished property, however, it is highly probable that this will change as the possibilities for reconstruction become exhausted and tighter controls concerning the transfer of residential buildings to commercial use are implemented. Furthermore, it is likely that the nature of demand will shift requirements to larger and flexible space which cannot be offered in old buildings. Nevertheless, the market for refurbished historical buildings in the city centre will remain, ensuring that the area remains a high status niche location (Sýkora, 1995).

Currently the real estate market in Prague is showing a substantial structural shift in demand generated mostly by the expansion of existing firms requiring high quality accommodation. This suggests a growing maturity in the market and after years of limited supply, differentiated demand is beginning to play an important role in the commercial property market. Another major shift likely to characterize Prague's office market is the change in geographical pattern of new developments. As potential sites for office development in the city centre are exhausted, new projects are being either launched or planned in the inner and outer city. This change is also stimulated by the differentiation of demand with some companies needing modern and efficient office space, although the nature of their operations do not necessarily require a city centre location. Predicted high take up rates, low vacancy, stabilized rents, reasonably high yields and a changing occupier profile suggest a growing level of maturity in the Prague office market although duality remains a feature inferring a need for greater integration between the international and local players.

The major barrier for the development of real estate has been the lack of finance from domestic sources with foreign capital playing a major role. Most new construction has been financed and developed by Austrian, German and French firms but mainly traded by agencies of UK origin. Furthermore, the majority of new users are international firms or joint-venture companies. The largest amount of office space is occupied by US, German and Austrian firms, followed by companies from the UK, France, Switzerland, Sweden and the Netherlands with property becoming one of the most internationalized sectors in Prague's urban economy. However, investment has been limited to providing development or acquisition for owner-occupation with little activity by major international institutional portfolio investors. The latter represents the next stage of the process. Although investors are potentially attracted by high yields (10–13%) uncertainty about political and economic development and inadequate knowledge concerning local planning procedures and the legal/institutional background for real estate pose a high risk for institutional investors. In this respect Prague still possesses the characteristics of an emerging market in which there is the involvement of international companies largely in the occupier rather than the investment market.

3.2 Budapest

Since 1989 Hungary has attracted *circa* $13 billion of direct foreign investment, a statistic which is significantly higher than that for any other central European country. However short-term interest rates are in excess of 23% and the cost of borrowing is high (1997 figures). The shortage of domestic finance for development means that much of the finance is raised outside of the country. The total stock of internationally acceptable modern office floor space at the end of 1992 was approximately 170 000 m^2 increasing to 215 000 m^2 by the end of 1993 (Redding & Ghanbari Parsa, 1995). The annual supply of office space in 1997 has been estimated as 50 000–75 000 m^2. Concerning rental values, prime office property in the central districts averaged about 55 DM per m^2 per month in 1991 and by 1992 the price of the highest quality office space in Budapest reached 60 DM per m^2 per month. Demand was generated largely from foreign companies and a few large indigenous firms mainly in insurance, banking and financial services, and the professional services sector (Jones Lang Wootton, 1995). However, new supply, market saturation and subdued economic conditions has lead to a reduction in the cost of prime office space to 45 DM m^2 per month in 1997 (Table 3). Take up in 1996 was approximately 90 000 m^2 with the total office stock estimated at around 3 million m^2 of which 470 000 m^2 is of international standard (Jones Lang Wootton, 1997b).

As the market develops there is evidence of growing price divergence by quality and geographical location, emphasizing the movement away from the socialist city with a lack of price differentiation. Thus, in some respects the Budapest market is acquiring characteristics of a western European city, but in terms of investment based transactions the market must still be considered as being immature. Although Budapest possesses clear investment opportunities, the market lacks several of the maturity criteria, including the development of local professional expertise.

3.3 Warsaw

Warsaw's property market emerged later than that in Prague and Budapest primarily owing to uncertain political conditions. However, it is considered to provide a better long-term prospect than its competitors being the capital of a much larger country and hence offering better growth potential (Judge, 1995). Foreign investors have been particularly active concerning the development of large office (and retail) projects. In contrast to Prague and Budapest there is significant development space in central Warsaw, though strict procedures for building permits and unresolved property rights has inhibited the construction/planning phases encouraging the refurbishment of existing space and an expansion of the out of town market.

During 1997 the office sector in Warsaw was in a boom period due to high demand from international financial services and domestic enterprises, with the office market driven by a limited supply of high quality space suited to the requirements of multi-national corporate occupiers. Only 10% of the office stock (3 million m^2) has been constructed since 1989. This has had a number of effects including a low vacancy rate, less than 1% in Warsaw during 1997 and high rents at 80–90 DM per m^2 per month for prime city centre space and 60–75 DM per m^2 per month for out of town business parks. An active pre-letting market has, in turn, facilitated financing and development opportunities (Table 3).

In 1993, construction of a number of business centres commenced adding between 140 000 and 160 000 m^2 of office space to existing stock (Jones Lang Wootton, 1995). It is also estimated that the next phase will see additional supply of 420 000 m^2 between 1996 to 1998. The development of these major projects has been made possible with the involvement of foreign investors and developers, in this respect the European Bank for Reconstruction and Development (EBRD) has had a major influence in new developments in Warsaw particularly flag-ship developments financed by syndicated loans.

Warsaw possesses the characteristics of an emerging market and potentially one with stronger growth potential than either Prague or Budapest. The ingredients are being put in place to facilitate the development of the real estate market with strong capital growth anticipated (Jones Lang Wootton, 1997c). However, as in the other case study cities there is currently an absence of institutional investors active in the market though cross-border investment activity from Germany is taking place following the lifting of restrictions.

4. Conclusions

Since 1989 the Czech Republic, Hungary and Poland have each received substantial levels of foreign investment, the cumulative total across the three countries being *circa* $26 billion. A substantial proportion of this investment has gone into the purchase of state enterprises, joint ventures and the purchase of real assets with impacts upon the development of local real estate markets. Although a number of factors have potential to constrain this process, international firms are operating in an environment which has seen substantial restructuring of the legal framework concerning taxation, financial status and the repatriation of profits in foreign exchange. Institutional reform has been an important factor facilitating inward investment in the absence of indigenous funds. Furthermore the influx of international companies has stimulated demand for office and other sectors with property prices comparable to western European markets but set against an economic backdrop of high inflation and interest rates. Growth in GDP is helping to boost local demand in the financial and business service sectors reflecting a growing level of sophistication in the service economy.

Property markets in Prague, Budapest and Warsaw show characteristics typical of the first phase of globalization with strong representation by international companies in the occupier market. However, in the property investment market there is an obvious absence of institutional investors and a relatively low level of transaction evidence. In this respect perceptions of risk stemming from political factors, weak economic conditions, uncertainties regarding property ownership, planning and development policies, and low levels of market information are continuing to make central European countries unattractive to the major institutions. Although yields are potentially attractive for the international investor pursing a policy of diversification, it is apparent that risk factors remain problematic.

The emergent nature of these property markets is characterized by a level of duality, with local actors servicing the local market and international firms, actors and users addressing the global market. Indeed several major developments have been financed and traded by international companies acting as both producers and consumers of commercial property though there is evidence of growing maturity with a shift in demand and an expansion of existing companies. The major real estate consulting practices have a strong level of representation in Prague, Budapest and Warsaw dealing primarily with international clients. The extent to which there is a cross-over of functions between the international and local level is unclear suggesting a high degree of immaturity. Furthermore, the level of market intelligence and analysis is restricted though standard property performance indicators relating to rents and yields are published by the international agents.

This analysis of office markets within Prague, Budapest and Warsaw indicates that as capital cities they are being increasingly exposed to global influences in terms of investment flows, property development and occupier markets. The growth of indigenous firms within the business sector is indicative of growing maturity, however, the coincidence of dual markets with low levels of interaction between local and international actors coupled with the lack of property investment is characteristic of an immature market. It would seem that the convergence of property markets in central European cities with western cities will be a protracted process with the parallel need to develop local expertise and indigenous sources of financing to facilitate the integration of local and international markets.

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