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From totalitarian urban managerialism to a liberalized real estate market:

Prague's transformations in the early 1990s

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4.1. INTRODUCTION

The so-called Velvet revolution of November 1989 brought Czech society and particularly Prague, the capital of Czech Republic, to its historical crossroad. After the origin of the independent Czechoslovak state in 1918 and the Communist coup in 1948 the city is facing radical changes in the political, economic, social and cultural life for the third time in this century.

The formulation of new ideologies, their implementation into new societal rules, and their influence on the restructuring of the "old" societal fabric are strongly determined by the geographical structuration of reality. Accordingly, the societal restructuring is most profound and radical in large settlement centres, particularly in the capital city of Prague. Therefore, the contemporary urban restructuring in Prague can be seen as the leading edge of the restructuring of whole Czech society.

The aim of this chapter is to give an overview of the processes which have shaped real estate in the city. The analysis of contemporary development has to be based on our understanding of the basic features of Communist urban politics and economy. Therefore, we provide a short outline of the Communist city and its urban economy. Then, general features of the transition towards a new societal (capitalist) order will be discussed. The core of the article is a detailed analysis of the crucial mechanisms designed to transform a Communist command urban economy to a capitalist urban economy. Particular attention is devoted to privatization processes and price/rent deregulation.

4.2. THE COMMUNIST CITY AND ITS URBAN ECONOMY

Before the Second World War, Prague had experienced the usual development of a capitalist city mediated through market forces. The liberal market mechanism on the one hand contributed to a rapid growth of the city; on the other hand it maintained pronounced socio-spatial differentiation (Musil, 1968; Mateju, Vecerník, Jerábek, 1979). A construction boom, based mainly on private sector activities,

helped to improve housing standards of middle and higher classes, while low income groups lived in housing of a very poor quality.

Communists, whose ideology perceived free market mechanisms as a crucial cause of social inequalities, attacked the main pillars of the capitalist system soon after the Second World War. The Communist takeover of 1948 was an outcome of the post-war struggle of the Communist party to dismantle all attempts to reinstall a democratic political system based on a plurality of ideologies designed to continue in the democratic tradition of the pre-war republic.

The Communist attack on basic pillars of the market exchange followed immediately after the political victory in February 1948. The Communists main goal was to get the whole economy under the central control. The category of private ownership, i.e. the centre piece of a capitalist economy and a barrier to the central control, was nearly abolished in the process of massive nationalization. The nationalization of production as well as consumption (for instance, rental housing) installed a central control of exchange processes and severely restricted the possibility of free choice on the level of the individual. The 'social-economic-political system in which the capacity to produce and deliver goods and services is substantially within state ownership and control' (Smith, 1989) was established.

Within the sphere of consumption, the process of transformation from the market allocation of resources to the centrally planned allocation of resources was accompanied by the redistribution of resources. This happened particularly in the housing sector through subdivision of large dwellings of bourgeoisie families and their redistribution to working class families. It reflected the proclaimed political goal to build up an egalitarian society. In this way it also explicitly attacked the last privileges of Czech petty bourgeoisie. Furthermore, price and rent regulations were administratively set and intended to maintain social equality. The mechanism of the central allocation of resources crafted for a just distribution of welfare, was based on estimates of standard needs expressed in norms, such as an objective need of square metres of living space per one person.

This command urban economy influenced Prague's built environment for four decades. Its main features can be summarized as follows:

- i) the state owned urban land and most of housing stock;
- ii) public management of state properties and state interference into other sectors (cooperative and private) were decisive for the allocation of resources;
- iii) the allocation of state rental dwellings, which amounted to 58.5 percent of all dwellings in Prague in 1989, was controlled by local government authority, which also controlled the allocation of dwellings in the so-called Peoples Housing Cooperatives (4.5 percent of dwellings in 1989);
- iv) there were important constraints put on the individual exchange of flats; the "exchange" of flats in the state sector had to be approved by the local government authority; only use values could be exchanged without consider-

- v) ing their exchange values; this contributed to the growth of a "shadow economy" where financial compensations for the "exchange" of dwellings with different exchange values flowed outside of the state control;
- v) the allocation of non-residential premises among different users in the commercial, administrative or industrial sectors was exclusively controlled by local government authorities (Local National Committees; see Dostál, Kára, 1992);
- vi) the management of municipal housing stock (dwellings as well as non-residential premises) was run by public institutions, so called Housing Services Corporations, established by and subordinated to Local National Committees;
- vii) the very low rent levels in both the commercial and the housing sectors did not cover basic expenses of Housing Services Corporations, whose operation was heavily subsidized from the state budget (in 1989 only 50 percent of their revenues came from rent);
- viii) scarce financial resources did not allow basic maintenance of houses and even less capital investment to rehabilitate and improve older and sub-standard housing stock; consequently, a gradual physical deterioration of houses in the inner city followed;
- ix) it has to be noted that in spite of a higher concentration of elderly people and Gypsies, the inner city neighbourhoods have never become slums because the higher as well as the lower status groups were well represented in the inner city population;
- x) the insignificance of land value or rent for locational decision-making significantly influenced the spatial distribution of functions within the Communist city; there were no economic incentives to use urban space resources, particularly the value of relative location, in a more economically efficient way.

4.3. CONCEPTUALIZATION OF TRANSFORMATION PROCESSES

The rapid institutionalization of pluralist democracy at the beginning of 1990 and its stabilization confirmed by the parliamentary elections of 1992 created the necessary preconditions for a governed transition from the centrally planned to a market oriented society. A rapid economic reform plan had already been approved by the parliament in September 1990. In the meantime a change in the constitution, which put private, cooperative and state ownership on the same legal footing, encouraged development in the private sector. This was supplemented by a law on private business activity which gave every citizen the right to engage in free enterprise in nearly all sectors of the national economy.

Following the preparatory phase in 1990, a wide-ranging, consistent reform programme was put into effect on the 1st of January 1991. It included three key elements of reform: the liberalization of prices, the liberalization of foreign trade

Table 4.1. Transformation processes.

object of transformation	transformation process
management of resource allocation	public --> market
ownership structures	state --> private
exchange measures	regulated --> liberalized

and the introduction of commercial convertibility of Czech currency. Since that time a succession of partial reforms transformed the fundamental features of the Czech economy and also influenced the restructuring of the whole society.

The main goal of the economic reform is to make the Czech economy more efficient and compatible with contemporary "western" markets as fast as possible. The decisive transformation has been the decentralization from the central to a market allocation of resources. Nevertheless, three general and closely interlinked transformations can be specified (Table 4.1.). Firstly, there is deregulation of the state management of resource allocation to actors in the market place. This reform is tightly bound with the reduction of indirect public influence through the dominance of state ownership and the regulation of exchange processes. This is reflected in the second and the third transformations which together create an environment where market forces can become the main allocator. The second transformation (privatization processes) breaks down the dominance of state ownership into a more diversified and fragmented structure, and thus creates a broad and complex set of individual actors which can participate in exchange. The third transformation introduces the market environment in its narrow sense. It deregulates state involvement into a regulation of exchange measures (prices, rent), thus permitting the relatively free actions of individual agents in market exchange.

The processes influencing the restructuring of the built environment will be analyzed in following paragraphs. Particular attention will be devoted to the privatization processes, especially to so-called restitution and small privatization, and to land prices and rents in the non-residential sector and their regulation/deregulation.

4.4. RESTITUTION, PRIVATIZATION AND MANAGEMENT OF PUBLIC HOUSING STOCK

One of the first reforms affected real estate ownership. Restitution is a process whereby previous owners, or their heirs, have been given back properties confiscated by the Communist regime. Restitution was driven not as much by economic reasons as by the desire to give moral compensation to those who lost their ownership rights after the Communist coup in February 1948. However, restitution

was not only a matter of justice but also a fundamental economic tool aimed at taking the state out of decision-making concerning existing capital assets as soon as possible.

Restitution has mostly affected apartment houses and apartment villas which under Communism were managed by Housing Services Corporations. Housing Services Corporations were institutions established by, and subordinated to, local government authorities. They were responsible for the technical management of state-owned stock. Housing Services Corporations collected rents, organized the maintenance of housing stock and delivered necessary technical services. In Prague, there were 10 District Housing Services Corporations in accordance with the territorial structure of the administrative division of the city into 10 districts governed by District National Committees (see Kára, 1992). In 1989 the corporations controlled 59 percent (i.e. 302,000) of all dwellings in Prague located in nearly 20,000 houses.

For instance, the District Housing Services Corporation in Prague's 5th district controlled 2,250 state owned houses in 1989. It accounted for 52 percent of all dwellings located in the district, where around 10 percent of Prague's inhabitants lived at that time. The reform of public administration changed the ownership of properties under the control of Housing Services Corporation in 1990. The Municipal Law brought most state houses into municipal ownership. The buildings which accommodated the central state administration remained in state ownership. The state has also retained houses declared as non-residential (buildings with more than one third of total floor space in non-residential functional use). Furthermore, the Capital City of Prague has been declared as a "statutory city" in the Municipal Law. This Act created a legal background for reform of public administration within Prague's territory. The reform divided Prague into 57 city parts (boroughs). The former territory of Prague 5 has been broken down into 10 smaller units. The core part of the district, which in morphological terms belongs to the inner city area, currently accommodates 63 percent of all inhabitants of the former district and keeps its name of Prague 5. Consequently, 400 houses were transferred to the ownership of newly established local authorities (city parts/boroughs) and currently are managed by a large number of small private real estate agencies. 1,900 houses remained in the hands of District (Prague 5) Housing Services Corporation¹. Subsequently, 1,300 houses were claimed within the restitution scheme. After restitution, approximately 580 houses remained municipal and 20 were in the state ownership. In 1992 a further privatization of municipal houses by the means of public auctions was considered. The District Housing Services Corporation itself was also going to be privatized. The local government of Prague 5 intended to keep a considerable financial share in the institution, whose services will be used for the technical management of municipal houses. It is necessary to note that the situation in Prague 5 was rather exceptional as the most

of District Housing Corporations have been dismantled and replaced by the services of a large number of private real estate maintenance companies.

The District Housing Services Corporation in the city part Prague 1, which is the historical as well as commercial core of the city, controlled 1,530 houses in 1989. These houses included 18,628 flats, i.e. 96.8 percent of all dwelling stock in Prague 1. During 1991 and 1992 there were 1,178 houses claimed in restitution. We estimate that about 70 percent of total housing stock was restituted (see also Eskinasi, 1994). 2,143 apartment houses were in Prague 3, an inner city district, 1,846 of which (75 percent of the district dwelling stock) were under the control of the District Housing Services Corporation, 193 in the ownership of Peoples Housing Cooperatives and 104 were Housing Construction Cooperatives' block of flats. 1,207 houses from the housing stock controlled by the District Housing Services Corporation have been restituted². Eskinasi (1994) provides figures of restitution for selected city parts (boroughs). According to his analysis 74.3 percent of houses were restituted in Prague 2 and 62.7 percent in Prague 7, two inner city neighbourhoods, while the zero percentage was (not surprisingly) found in the newly built districts (prefabricated housing estates) of South Town and Southwest Town.

Restitution (or reprivatization) has a clear geographical pattern. The restitution process has mainly affected real estate in the inner city of Prague, predominantly apartment houses or apartment villas, while outer districts of the city of Prague, which are characterized by newly built prefabricated housing estates and private single family houses, have remained nearly untouched by this reform. Consequently, the geographical impact of restitution can have significant implications for a massive economic and social restructuring in particular city areas.

Restitution brought many apartment houses up for sale. Based on interviews with employees of real estate agencies we estimate that about 2,500 apartment houses and villas were on the real estate market during 1992-1993. According to our survey of houses offered through advertisements in the real estate journal Reality Profit, the highest numbers were concentrated in the belt of inner city neighbourhoods (such as Nové Mesto, Vinohrady, Zizkov, Smíchov, Nusle, Liben and Vrsovice) surrounding the historical core of Prague.

Apartment houses are sold for 2-20 million crowns depending on location, number of tenants, vacant rooms and availability of non-residential premises. Most of these houses are fully tenanted. The rental income from Czechs living in the buildings is generally negligible, as the rent in the domestic housing sector is regulated. However, demand is high for apartments in Prague, and rent for foreigners is fully deregulated. It is possible to relocate the Czech tenants, renovate the properties and relet them at substantially higher rents, often for hard currency. Some investors aim at producing units fully fitted to western standards. If located in an attractive inner city location asking rents range from 1,500 DM for a small

apartment to 6,000 DM per square metre per month for large three bedroom and two bathroom units. Property that includes shops or office space greatly increases its attractiveness due to the strong demand for retail space and the fact that rents in the non-residential sector are almost deregulated. In 1993, the supply of tenement houses exceeded demand and real estate market in this segment stagnated. Consequently, a decline in prices was reported in economic and real estate journals such as Estates News, The Prague Post - Real Estate, Ekonom, Reality Profit.

Restitution has also induced a boom in small commercial developments and the transfer of flats into offices. The change from residential space to non-residential premises is relatively easy, as there currently is no legislation which would protect the reduction of residential spaces. Consequently, a decline in the living function of units in the central city is expected. However, due to restitution many non-used or underutilized non-residential premises have been rapidly converted to the "higher and best use" (Sykora, 1993). These processes rapidly changes the face of central city.

There are still many houses in municipal ownership which were not claimed in restitution. In Prague, they are now owned by the central city authority. Nevertheless, the city parts (boroughs) have been entrusted with the management of the property and its privatization. In December 1992, the Municipal Assembly approved standards of the privatization of municipal houses. In these rules a high priority was given to sell whole houses to cooperatives established by their tenants; foreign investors and real estate agencies should be kept out as long as possible (in contrast to restitution); only less profitable and run down houses were supposed to be sold in inner city neighbourhoods; there are financial incentives available for the stimulation of housing renewal to be carried out by new owners (Eskinasi, 1994). However, despite of these propositions, municipal apartment houses were quite often offered and sold to real estate agencies. Two city parts of Prague 3 (Zizkov) and Prague 4 were especially active in pursuing these means of privatization.

The newest impetus for the privatization of municipal as well as cooperative housing stock is the Act on Ownership of Flats and Non-Residential Premises, approved by the parliament in March 1994. Under this law, municipalities and cooperatives can sell individual flats to their tenants. Common rooms in a building will be in common ownership and maintained by a legal entity (a company). It is hoped that the act will stimulate a fast conversion of rental housing to an owner-occupied sector, characteristic of condominiums (which will be a new form of tenancy in the Czech Republic).

The Act on Ownership of Flats and Non-Residential Premises may have profound socio-spatial implications. First, most cooperative housing is going to be converted to condominiums. These houses are and will be occupied by a lower middle class. Second, details of flat privatization (price, payment rules) in municipal rental houses have not yet been specified. However, there is no price

limit for flats. Nevertheless, sitting tenants have the first right to buy. Third, many apartment houses, which were restituted, can be converted to condominiums. The potential gains from the change from rental sector with regulated rent to a (deregulated) owner-occupied sector, through which an owner can yield due to the so-called value gap (Hamnett, Randolph, 1986; Clark, 1992), have been reflected in the activity of large real estate agencies which bought houses in the best locations. This housing stock may become intensively gentrified.

4.5. PRIVATIZATION OF SMALL STATE PROPERTIES

Another reform aimed at restructuring ownership structures – small privatization – has exclusively focused on the privatization of small state properties. The primary aim of small privatization was to sell small state-owned businesses by means of public auction to private hands, thus offering the facilities necessary for the rapid development of a small private entrepreneurs' sector. The participation of foreigners was forbidden in the first round of auctions. Nevertheless, foreigners could enter second round auctions and purchase premises which were not sold in the first round.

There were generally two ways in which properties were sold. A whole property, often including land, was sold when premises were located in a free-standing building, which was not claimed in restitution. This accounted for 20 percent of all auctions in Prague and particularly affected shopping or service centres built during the Communist era. Consequently, only facilities, furnishings or machinery were sold in the majority of auctions. Nevertheless, because the property was bought in a small privatization auction, a five-year lease was guaranteed for new tenants. Small privatization started in January 1991. In Prague, 2,528 shops, restaurants or smaller enterprises came under new owners or tenants in small privatization auctions during 1991-93 (Table 4.2.). 18.7 percent of total income from small privatization in the Czech Republic was concentrated in Prague. The average price for one privatized unit reached 2.4 million Czech crowns (Hellerová, 1993). Together with restitution, the small privatization process has provided an impetus for the rapid introduction of small firm competition, especially noticeable in the retail sector.

Table 4.2. Number of sales in small privatization in Prague.

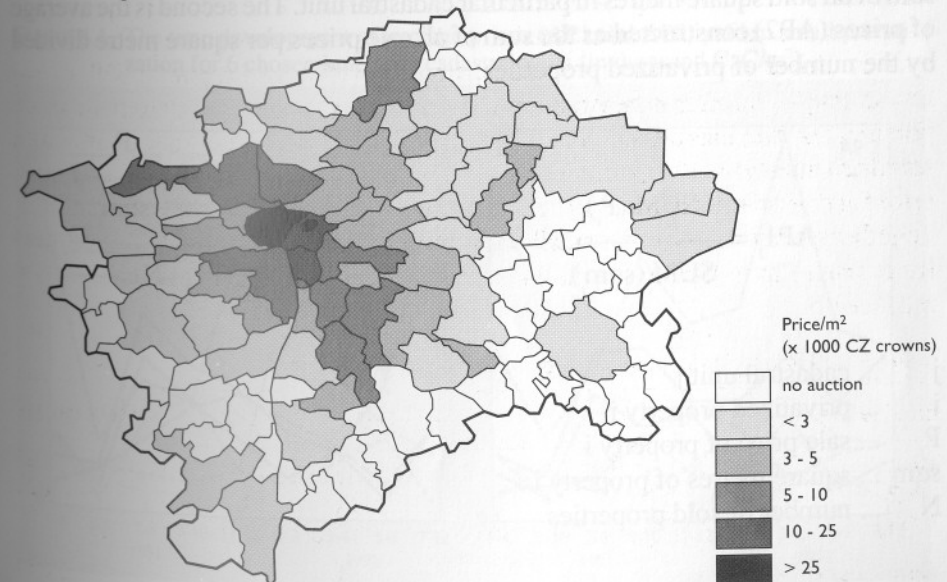
time period	all sales	leases only
1991	1 742	1 366
1992	714	625
1993	72	59
1991 - 1993	2 528	2 050

The enormous difference between starting prices and sale prices (1:30) achieved in first auctions of some inner city properties was a great surprise for the general public as well as for ministerial officials. At that time it was argued that sale prices will rapidly drop in subsequent auctions, because it was thought that money laundering contributed to the extremely high price level. Nevertheless, as Kára and Sykora (1991) argued, the prices paid in the auctions probably resulted from relatively rational economic calculations based on a new phenomenon in Prague's urban economics – a differential location rent. Kára and Sykora (1991) outlined a model of Prague's urban space zoning according to the expected influence of the differential location rent. The developments in 1991-93 confirmed the model expectations.

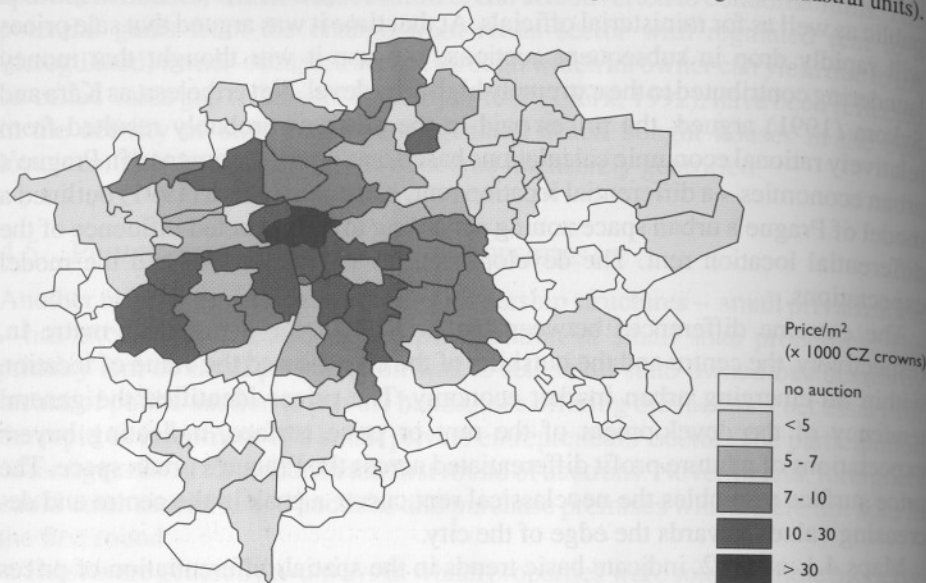
The extreme differences between the price paid for one square metre in, respectively, the centre and the outskirts of the city showed the value of location within an emerging urban market economy. The prices identified the general tendency of the development of the rent or price surface, indicating buyers expectations of a future profit differentiated across the Prague's urban space. The price surface resembles the neoclassical rent curve: a peak in the centre and decreasing values towards the edge of the city.

Maps 4.1. and 4.2. indicate basic trends in the spatial differentiation of prices paid per square metre by 110 Prague's cadastral³ units. Only "leases" are considered, because in the cases of whole property sales the influence of differential

Map 4.1. Average price (AP1 - in thousands crowns per square metre) paid in small privatization auctions in 1991-1992 (according to 110 Prague's cadastral units).



Map 4.2. Average price (AP2 - in thousands crowns per square metre) paid in small privatization auctions in 1991-1992 (according to 110 Prague's cadastral units).



location rent on prices is distorted by the physical and technical conditions of the buildings. Two procedures were used to calculate the average price. The first of them defines the average price (AP1) as the sum of all sale prices divided by the sum of all sold square metres in particular cadastral unit. The second is the average of prices (AP2) constructed as the sum of all sale prices per square metre divided by the number of privatized properties.

$$AP1_j = \frac{\text{SUM}(P_i)}{\text{SUM}(\text{sqm}_i)}$$

$$AP2_j = \frac{\text{SUM}\left(\frac{P_i}{\text{sqm}_i}\right)}{N}$$

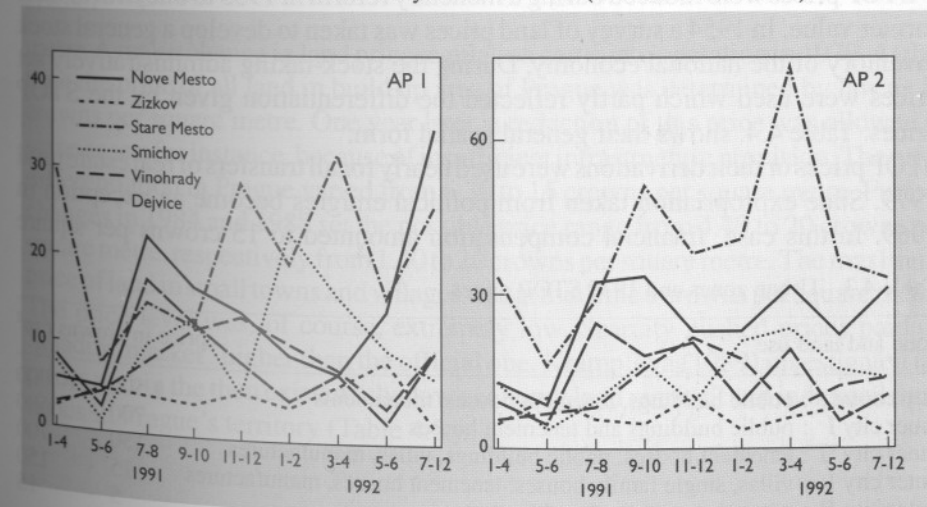
- j ... cadastral unit j
 i ... privatized property i
 P_i ... sale price of property i
 sqm_i ... square metres of property i
 N ... number of sold properties

These two measures are complementary. The average of prices is more sensitive to higher prices reached in a number of relatively small properties. Therefore, this price is generally higher than the characteristics called the average price. It also has a little different spatial outcome influenced by a different size structure of properties in particular city areas. For example, a significantly higher AP2 than AP1 in the areas of new housing estates is caused by a few small premises, which have been sold for an extremely high price. This situation is influenced by a severe shortage of retail and basic services in these areas and consequently by a high demand of entrepreneurs for scarce premises of small size.

Figure 4.1. shows the development of prices in time (1991-1992). Six cadastral units were chosen. The choice criterion was 10 or more sales in each time period. In spite of the considerable fluctuation in average prices some general trends are observable. The two city centre cadastral units (Staré Mesto and Nove Mesto) show higher values than all four remaining inner city cadastral units (Dejvice, Smíchov, Vinohrady and Zizkov) for nearly the whole time period. The price level was relatively stable during the two years investigated. This did not even reflect inflation. As prices in the economy as a whole increased by 66 percent, real average prices therefore declined in the period under investigation. This can be explained by the growing supply of premises, which entered the property market due to the restitution process.

Small privatization was a temporarily limited process which influenced the establishment of urban property market in its initial phase. However, its significance as an impetus for the establishment of a market environment within the small

Figure 4.1. The time development of average prices (AP1 and AP2) paid in small privatization for 6 chosen inner city cadastral units (in thousand CzC/m²).



business sector was quite important. It contributed considerably to the rapid but smooth transition from command to market mechanisms in the Prague's urban economy.

Small privatization has also had significant social implications, stimulating massive changes in the functional use of privatized premises. Research conducted in the central city of Prague indicates a drastic reduction in the number of facilities which serve the needs of local citizens, such as groceries and other food shops, kiosks and service workshops. Conversely, the number of catering establishments has expanded considerably, and many new facilities such as travel bureaus, real estate offices, exchange offices or video lending libraries replaced various previous functions (Sykora, 1994b).

4.6. URBAN LAND: ITS OWNERSHIP AND PRICES

After the 1948 Communist takeover all urban land was nationalized. Land ownership ceased to exist and was replaced by the so-called personal use right (Michalovic, 1992). No land market existed within Communist urban economy. All transactions of land were controlled by the state authorities.

The so-called STOP prices were used until the end of 1970s for transfers of land among different legal entities. The STOP prices were fixed already in June 1939; an administrative measure intended to halt rapid increases of land prices during the building boom period in Prague of 1920s and 1930s. As a matter of fact, land prices increased twenty fold inbetween 1914-1939 (Kramplova, 1989). Table 4.3. shows the price differentiation according to spatial zones and land use pattern and Map 4.3. indicates the spatial pattern of STOP prices in the city centre.

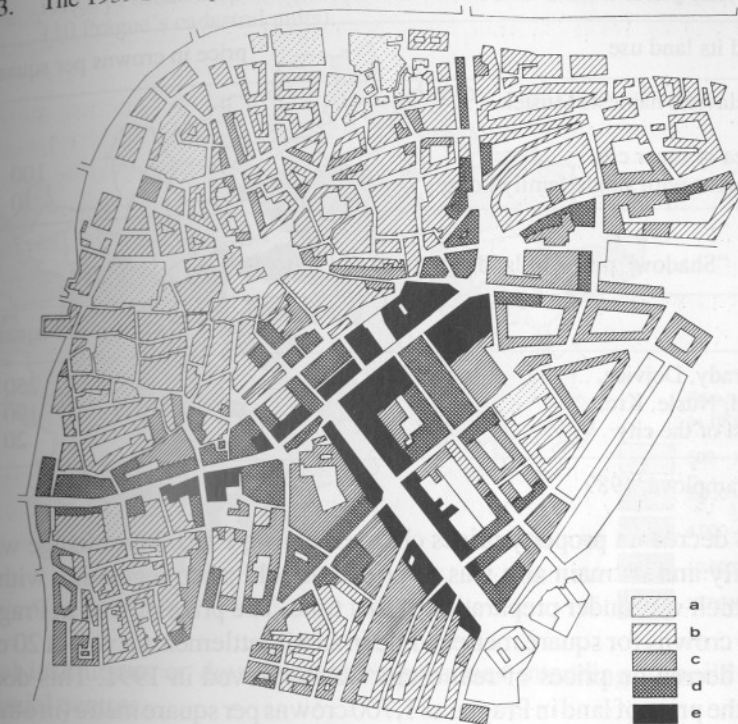
STOP prices were reduced during a monetary reform in 1953 to one fifth of their former value. In 1954 a survey of land prices was taken to develop a general stock inventory of the national economy. During the stock-taking administratively set prices were used which partly reflected the differentiation given by the STOP prices. Table 4.4. shows their general spatial form.

STOP prices or their derivations were used nearly for all transfers of real estate until 1979. State expropriation taken from political emigres become an exception in 1969. In this case, financial compensation amounted to 15 crowns per square

Table 4.3. Urban zones and 1939 STOP prices.

zone and land use	price in crowns / m ²
city centre : public buildings, tenement houses, monuments	1 500 - 10 000
inner city I : public buildings and tenement houses	700 - 1 500
inner city II : tenement houses, public buildings, villas, manufactures	150 - 700
outer city I : villas, single family houses, tenement houses, manufactures	15 - 150
outer city II : green space, agricultural land	5 - 15

Map 4.3. The 1939 STOP prices in crowns per square metre.



- a) 0 - 1.500
 b) 1.501 - 2.500
 c) 2.501 - 3.500
 d) 3.501 - 8.000
 e) 8.001 +

metre. A major change in land price regulation came into operation in 1979. At that time the price of all land in build up area of Prague was determined by law as 15 crowns per square metre. One year later, a reduction of this price was allowed in some cases; for instance, because of insufficient infrastructure provision. The price differentiation in Prague varied from 6.30 to 15 crowns per square metre. Further changes in 1984 and 1988 set the possible price range from 4.40 to 20 crowns per square metre, respectively from 1.40 to 20 crowns per square metre. The maximum price of land in small towns and villages was at that time 6 crowns per square metre. The price level was, of course, extremely low. Scarcity pushed prices paid on "shadow market" higher than the official one. Kramplová (1989) investigated the prices within the then existed "shadow economy land market" and indicated three zones in Prague's territory (Table 4.5.).

Table 4.4. The prices of land in 1954.

locality and its land use	price in crowns per square metre
CBD - Vaclavske namesti/Mustek	1 000
city centre	500
built up area of inner city	100 - 300
outer city areas with single family houses	10 - 30

Table 4.5. "Shadow" prices of land at the end of 1980s.

zone	price in crowns per square metre
1st: Vinohrady, Dejvice, ..	250 - 350
2nd: Podoli, Nusle, Krc, ..	100 - 250
3rd: the rest of the city	20 - 100

Source: Kramplová, 1989

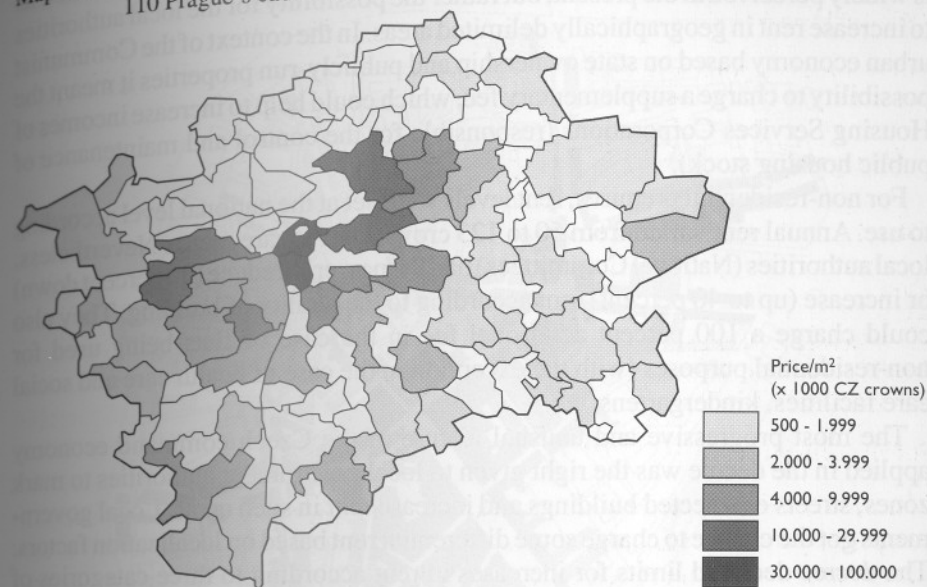
The 1988 decree on property prices changed during 1990. This change was only temporarily and its main aim was to bridge the old price regulation with a new decree which was under preparation at that time. The price of land in Prague was set at 250 crowns for square metre, while in small settlements it was at 20 crowns.

A new decree on prices of real estate was approved in 1991. This document declared the price of land in Prague as 1,700 crowns per square metre (in other large cities it is 800 crowns, 100 crowns in municipalities with more than 5,000 inhabitants and 20 crowns in small villages). There is no differentiation in this administratively set price of land within the Prague's territory, which would reflect the value of geographical location. However, this price does not determine the negotiation of market price of land, because the official value rarely corresponds with the market value.

Simonícková (1993) collected data on 53 properties on sale during 1992. The advertised prices per square metre ranged from 850 crowns at the city outskirts to 70,300 crowns in the city centre. In 1993, there were 61 land properties advertised for sale in Reality Profit. Map 4.4. shows the spatial differentiation of land prices for 1992 and 1993 years.

The city of Prague can be divided into three zones according to price of land and the character of the built environment, which to a certain degree determines the future functional use of land. The first zone is the historical core of the city characterized by scarcity of available land. The price of land in this zone is over 50,000 Czech crowns per square metre. Recently, the sale of a 840 square metre plot of land in a very central location (Namestí Republiky) occurred for a price of 213 millions of Czech crowns (247 thousands Czech crowns per square metre). High land prices in central locations restrict builders to only a small group of large

Map 4.4. Prices of urban land in 1992-1993 in crowns per square metre (according to 110 Prague's cadastral units).



financial institutions or development corporations intending to build office or commercial centres.

The second zone consists of inner city neighbourhoods characterized by a compactly built environment of apartment houses or apartment villas. The prices of land in this zone range from 2,000 to 8,000 Czech crowns per square metre, and the expected functional use is a mixture of residential and commercial developments, depending on location. Most of the offered land is localized in the third zone outside of the inner city. Land in these locations is offered mainly for construction of new single family houses and warehouses, and the average price is 1,000 Czech crowns per square metre.

4.7. RENT REGULATION/DEREGULATION IN NON-RESIDENTIAL SECTOR

Within a command economy rent in the non-residential sector was fully regulated. A heterogeneous legislative background for setting rent levels was unified in 1967 in the decree on rent in non-residential premises. The decree was relatively progressive in the time of its approval, and it can be perceived as a successful outcome of the reform processes from the second half of 1960s. Rent was regulated according to the principles outlined in this decree, which allowed a limited deregulation, until the end of the Communist regime.

Limited deregulation does not mean deregulation from the state to the market, as is widely perceived at the present, but rather the possibility for the local authorities to increase rent in geographically delimited areas. In the context of the Communist urban economy based on state ownership and publicly-run properties it meant the possibility to charge a supplementary fee, which could help to increase incomes of Housing Services Corporations (responsible for the control and maintenance of public housing stock).

For non-residential premises, rent levels were set at the national level according to use. Annual rent varied from 50 to 123 crowns per square metre. Nevertheless, local authorities (National Committees) had the power to reduce (30 percent down) or increase (up to 40 percent) rent according to the quality of building. They also could charge a 100 percent additional fee in the case of flats being used for non-residential purposes (with the exception in the case of health care and social care facilities, kindergartens, etc.).

The most progressive and unusual feature of the Czech command economy applied in the decree was the right given to local government authorities to mark zones, streets or selected buildings and increase rent in such areas. Local governments got the chance to charge some differential rent based on localization factors. The decree declared limits for increases in rent according to three categories of settlements and three categories of non-residential premises (Table 4.6.).

Unfortunately, this supplementary charge was not fully utilized. In Prague, there was an additional 200 percent fee charged only in shopping streets of the city centre and 100 percent and 50 percent increases in other shopping areas. Why? The local authorities (Prague's District National Committees) made the zoning for the supplementary rent in 1967 and since that time it remained fixed until the end of the Communist regime. The outcome of the reform processes at the end of 1960s left free space for new developments, but under the influence of the post-1968

Table 4.6. Limits for supplementary rent increase according to the size of settlement.

use/settlement categories	A	B	C
restaurants/cafeterias	300%	100%	50%
retail	200%	100%	40%
offices/workshops/store-houses	100%	50%	30%
D	500%	300%	100%

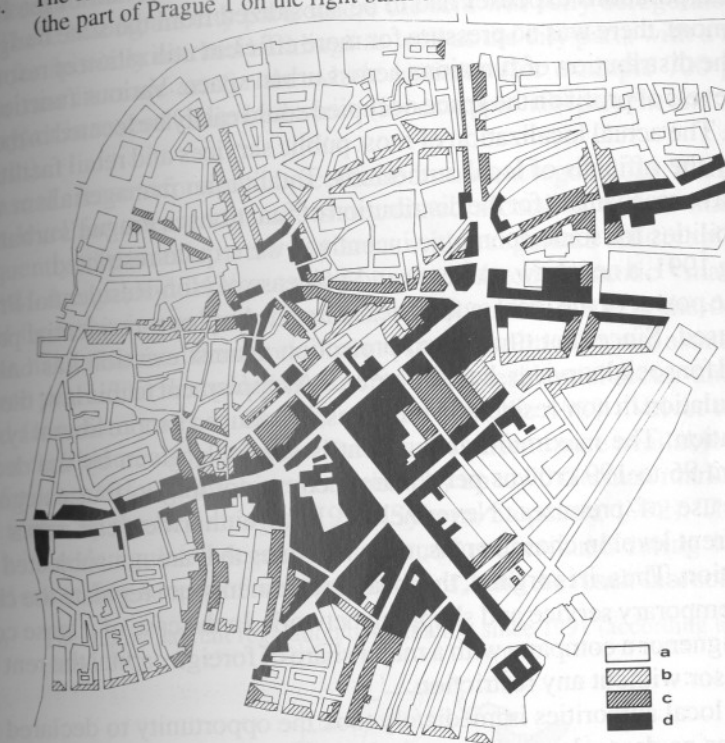
A) cities with 200,000 and more inhabitants;

B) towns and cities with 50,000 and more inhabitants, and settlements chosen by district authorities;

C) other settlements;

D) non-residential premises suitable for retail or public services, but used for another purposes.

Map 4.5. The local government rent regulation in non-residential sector in the city centre (the part of Prague 1 on the right bank of Vltava river) between 1968-1990.



- a) basic rates set up by the state
 b) + 50 percent
 c) + 100 percent
 d) + 200 percent

“normalization” process the possibility to increase the rent or change the zoning was not taken up by the local authorities.

The zonation within the Prague's city centre is shown in Map 4.5.. Three zones of supplementary charges (200-100-50 percent) were declared by the local authority of Prague 1 for restaurants and retail. The other city districts declared increase of 100 percent and 50 percent for selected streets or buildings. Most of the local authorities also took the right to charge 500 percent additional rent in the case of retail or public service premises used for other than public purposes.

The extracted rent, however, was quite low and it could not really contribute to cover the maintenance costs in the publicly run housing sector. In 1989, the incomes of Housing Services Corporations in Prague from rents amounted to 1,020 million crowns (482 millions were extracted in the form of rent from housing sector and the rest from non-residential premises). Running, maintenance and

small repair costs reached 2,039 million crowns. Therefore, half of the Housing Services Corporations expenses had to be subsidized from the state budget.

Furthermore, there was no pressure for more efficient utilization of resources in terms of the distribution of functions across urban space. Various functions with very low levels of profit on the space occupied could easily be located in the centre of the city. The actual localization of most public services and retail facilities was decided by the officials of local authorities. Totalitarian managerialism was the most decisive mechanism for the distribution of functions in Prague's urban space. The possibilities for some economic incentives were quite restricted.

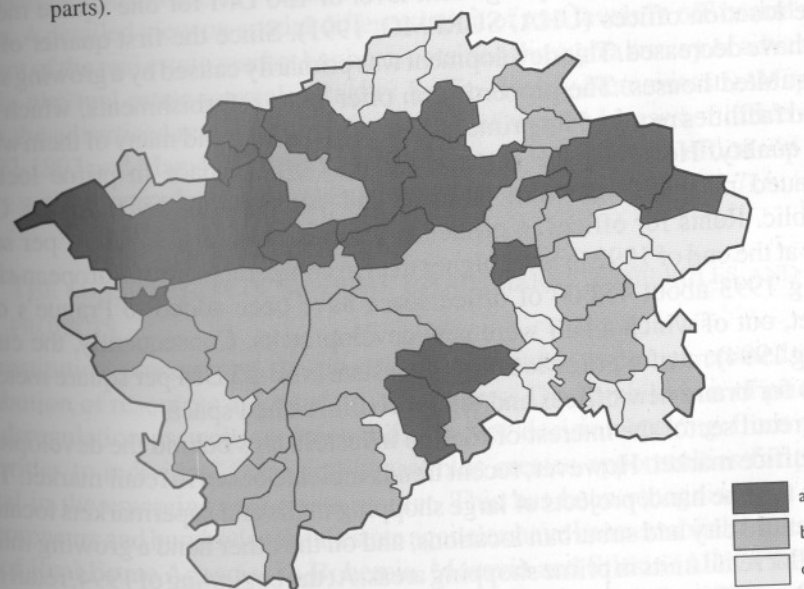
In spring 1991, a new Law on Lease and Sublease of Non-Residential Premises usurped the power of the local authorities to decide how non-residential premises are to be used. Since that time, legal protection against eviction has only been guaranteed for social services, health care etc.. A supplement to this law, the decree on rent regulation in non-residential premises, introduced a more liberal system of rent regulation. The maximum annual rent is generally given by the decree. It ranges from 96 to 190 crowns per square metre according to four categories of functional use of premises. Nevertheless, local authorities can set a higher maximum rent level in chosen areas, or mark zones that are not subjected to any rent regulation. Thus, it is argued, the local governments can regulate the changes in the contemporary service and shopping network. In the case of a lease contract with a foreigner or a company with a major share of foreign capital the rent can be set by a lessor without any restriction.

Prague's local authorities immediately took the opportunity to declare whole district areas as deregulated (Prague 1, 2 and 7) or to mark zones without any regulation (Prague 9 and 10). This 'individualist' approach of the local authorities to the deregulation was terminated by new developments in the city administration. The Capital City of Prague Act approved by the Czech parliament in the autumn 1990 brought reform of internal city administration. The Act declared the Capital City of Prague as a single municipality which is subject to the Local Government Act. However, Prague as the statutory city can divide its administration between the city itself and the city parts (boroughs). The division of power is defined in the Charter of the Capital City of Prague. Consequently, Prague has been divided into 56 city parts (a 57th city part was created in 1991) of very different sizes and strengths. However, during this process the central city authority succeeded to maintain most political power in the city. In the context of this centralized power, the individual city parts' rent regulations has been abolished and a Decree of the Capital City of Prague on the Regulation of Rent in Non-Residential Premises was approved in the spring of 1991. The decree does not represent unified rent regulation for the whole city. It is rather a collage of different approaches to (de)regulation in individual city parts put into one centrally approved decree. The city parts with full deregulation on their whole territory as well as the city parts with

partial deregulation are shown in Map 4.6.. The second group is highly heterogeneous. There belong the city parts where the rent was fully deregulated in some areas or for specially marked buildings as well as the city parts with a maximum limit for rent increase set for the whole territory (for example 700 percent in Modrany) or in several delimited zones (for example 100 percent and 50 percent in Ratotín).

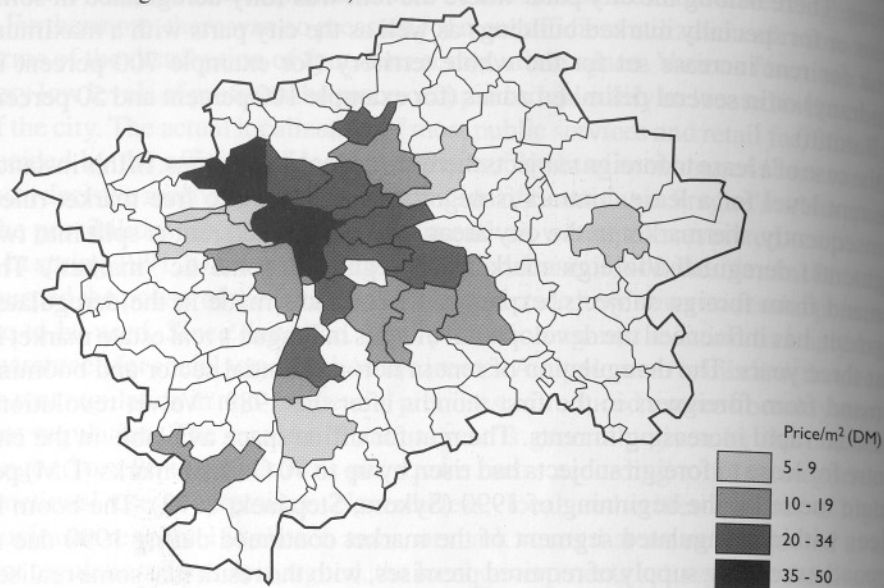
In the case of a lease to foreign subjects there are no rent regulations. In this instance the rent level for a lease contract is negotiated according to free market rules. Consequently, the market in the city areas with a regulated rent is split into two segments: deregulated/foreign market and regulated domestic "market". The demand from foreign subjects, expressed in contracts made in the deregulated segment, has influenced the development of rents in Prague's real estate market in past three years. The deregulation of rent in non-residential sector and booming demand from foreigners in the first months after the 1989 "Velvet revolution" caused a rapid increasing in rents. The rent for office space available in the city centre for lease to foreign subjects had risen by up to 70 German marks (DM) per square metre by the beginning of 1990 (Sykora, Stepánek, 1992). The boom in prices within deregulated segment of the market continued during 1990 due to demand exceeding supply of required premises, with the result that some realised

Map 4.6. The municipal rent regulation/deregulation since 1991 (according to 57 city parts).



- a) full deregulation
- b) partial deregulation / various municipal regulations
- c) basic rates

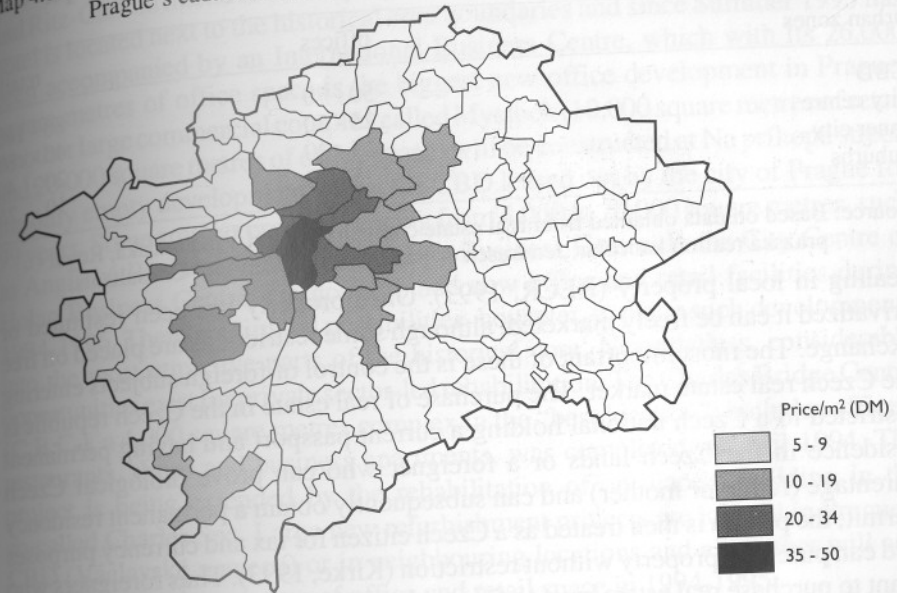
Map 4.7. Rents for office space in DM per square metre in 1992-1993 (according to 110 Prague's cadastral units).



leases fetched an extremely high rent level of 150 DM for one square metre of prime location offices (ÚHA, SÚRPMO, 1991). Since the first quarter of 1991 rents have decreased. This development was primarily caused by a growing supply of restituted houses. The properties on offer were refurbishments, which often lacked facilities required for prime quality office space, and many of them were of poor quality. However, the demand for new office space in prime locations continued rise, with growing political and economic stability in the Czech Republic. Rents for offices in prime site properties were 65-70 DM per square metre at the end of 1992 (a level higher than in comparable West European cities). During 1993 about 45,000 of office space have been added to Prague's office market, out of which a half were new developments. Consequently, the current (spring 1994) rate for prime location real estate is 50-55 DM per square meter per month for brand new offices and top level refurbished space.

In the retail sector the interest of foreign investors lags behind the developments in the office market. However, recent trends indicate boom in retail market. There are, on the one hand, projects of large shopping malls and supermarkets located in both central city and suburban locations, and on the other hand a growing interest in smaller retail units in prime shopping areas. At the beginning of 1994, retail rents on the most expensive shopping streets in Prague (Václavské náměstí, Na příkopě) and in some places of tourist interest (Karlův most) ranged from 100 to 250 DM per square metre per month.

Map 4.8. Rents for retail space in DM per square metre in 1992-1993 (according to 110 Prague's cadastral units).



The development of rents in Prague's real estate market revealed a distinct spatial pattern. A detailed view on spatial differentiation of rent levels in office and retail segment of the real estate market has been obtained through a survey of advertised rents in two real estate journals (Reality Profit, Reality Nemovitosti). Map 4.7. shows the advertised rent for one square metre of supplied leases of office space in 1992-1993 and Map 4.8. for retail space. The rent levels for the office and retail spaces within particular urban zones in Prague are shown in Table 4.7..

4.8. THE CONSTITUTION OF THE REAL ESTATE MARKET: THE RULES AND NEW PROJECTS

The restitution process and the privatization of state properties created a new distribution of resources amongst private owners. The combination of price and rent deregulation as well as decentralization of decision making from public authorities to individual firms and households creates opportunities for private capital in the emerging real estate market. This has been recognised by Czech entrepreneurs and hundreds of real estate agencies have been established. Association of Real Estate Agencies in Bohemia, Moravia and Silesia (ARK CMS) was founded in July 1991 by 17 agencies and presently has more than 200 members. APRES (Association of Prague Real Estate Agencies) was founded in February 1992 and today consists of 8 members. There are also about 50 foreign companies

Table 4.7. Rent levels in Prague's non-residential sector in DM per square meter per month (spring 1993).

urban zones	offices	retail
CBD	50 - 70	80 - 140
city centre	25 - 50	40 - 80
inner city	15 - 30	20 - 40
suburbs	5 - 20	10 - 25

Source: Based on data obtained from real estate companies První Vinohradská, Royal - prazská realitní kancelár, Jendrusch & Partner and Ryden Intl. Consultants.

dealing in local property (RECR, 1993). Once property has been restituted or privatized it can be freely marketed, although some restrictions are placed on free exchange. The most important of these is the control of foreign subjects entering the Czech real estate market. The purchase of real estate in the Czech republic is restricted to a Czech national holding a current passport and having permanent residence in the Czech lands or a foreigner who can prove biological Czech parentage (father or mother) and can subsequently obtain a permanent residency permit; the person is then treated as a Czech citizen for tax and currency purposes and can purchase property without restriction (Kirke, 1993). Thus foreigners who want to purchase real estate have to form either a limited liability company (spol. s.r.o.), that require 100,000 crowns start-up capital and has the quality of a legal entity, or a joint stock company (a.s.), a public company requiring 1,000,000 crowns start-up capital, or one of the other varieties of companies through which it is possible to purchase property. The establishment of a limited liability company is the most frequently used strategy. There is no necessity for Czech participation in these companies. However, foreigners who intend to become managers of a limited liability company need to obtain a long-stay residency permit in the Czech republic; after eight years, permanent residency becomes available. IMMOs (1993) reports that foreigners acquired about 50 percent of real estate through Czech real estate agencies.

The acquisition of ownership of real estate is subject to a written purchase contract between the purchaser and the owner. The transfer of property is effected by a constitutive entry into the Real Estate Cadaster³. Basically, the parties are free to calculate the purchase price of the property. However, in the case of foreign purchase through a company, the buying contract has to be reported to the Ministry of Finance. The ministry undertakes a valuation of the property in accordance with the foreign real estate price level. This price is subject to 5 percent property transfer tax. The valuation is paid for, normally by the purchaser, and can be appealed. Once agreed, the price is placed on the buying agreement and sent for registration.

As far as foreign developers are concerned, major interest is devoted to new large projects such as commercial centres and hotels. New hotels, such as Atrium, Penta

or Don Giovanni, have been built since 1989, and foreign chains as Four Seasons and Ritz-Carlton intend to develop top level facilities in the central city. The Atrium hotel is located next to the historical core boundaries and since Summer 1993 has been accompanied by an International Business Centre, which with its 26,000 square metres of office space is the biggest new office development in Prague. Another large commercial complex called Myslbek (10,000 square metres of retail and 20,000 square metres of office space) will be constructed at Na příkope street, the only empty development site in the CBD leased out by the city of Prague for 99 years. Some smaller projects ranging from 4,000 to 20,000 square metres, such as Anglická Business Centre, Vinohrady Business Centre, Praha City Centre or Holan Business Centre, are going to add new office and retail facilities during 1994-1996. There are limited possibilities, however, to place such developments into the most attractive parts of the historical core. Nevertheless, considerable opportunities exist for private sector-led rehabilitation. The Charles Bridge Centre (C.B.C.), a 4,000 square metres complex in the "best location", includes offices, restaurants, shops and business apartments, was completed in April 1994. The project is being extended by the rehabilitation of an adjacent building in the so-called Charles Spa. Large new refurbishment projects are located in Prague's CBD (Václavské náměstí) or in neighbouring locations and altogether will add about 35,000 square metres of office and retail space in 1994-1995.

Obviously, new construction projects stand a better chance of obtaining approval outside the historical core of the city. For example, there are large underdeveloped or underutilized areas in close proximity to the city centre used currently as railway freight zones. They offer opportunities for new large scale office and commercial developments. Political and planning priorities are being given to these developments which can attract a considerable amount of foreign capital. Furthermore, the development of these zones will extend the city core area and thus secure the historical reserve from unfavourable building projects (Sykora, 1994a). The World Trade Centre is planned to be built in Holesovice-Bubny-Zátory, a complex of administration and retail facilities will cover the Main/Wilson Railway Station, and a mixture of residential and commercial developments is expected at Smíchov.

4.9. CONCLUSIONS

The main aim of this chapter was to give an overview of the basic processes which are transforming the Communist urban managerialism to a capitalist urban economy. Particular attention has been devoted to the changing ownership structures and to price and rent deregulation. The restitution process and privatization of state properties built during Communist period have created a new distribution of resources among many private owners. These processes have formed, in the combination with price and rent deregulations and the decentralization of decision

making from state authorities to private individuals, room for private capital action in an emerging real estate market.

During 1991-1993 most transactions in Prague's real estate market were in the sphere of redistribution of current building stock, and properties on offer were mostly refurbishments often not meeting required standards. Nevertheless, due to a high scarcity of available commercial space, extremely high prices and rents could be asked. However, during the second half of 1993 the first large new developments and top level refurbishment projects were realized and helped stabilize price levels in the office sector at about 50-55 DM per square metre per month. Nevertheless, it is expected, that the new office supply will not meet demand before 1997.

In coming years, the most important developments on Prague's real estate market are going to be associated with foreign investments. They will be mostly channelled to newly built or redeveloped office and retail centres. Only a minor part of investments will go to housing sector. However, such projects can have a considerable influence on social life in particular city areas. Gentrification can be expected in the zones of the inner city possessing the label of "better" status and in small projects of "housing for entrepreneurs" that are already being built in the outer city ring or outside the Prague's administrative boundary.

NOTES

- ¹ The information about District Housing Services Corporation in Prague 5 was obtained through an interview with the head of the company in August 1992.
- ² The information about Prague 1 and Prague 3 was obtained from District Housing Services Corporations officials in spring 1993.
- ³ Cadastral units are basic historical areas for which long term statistical information is available. They serve as a basic territorial identification within the Land Registry (Real Estate Cadaster). Their number has recently been enlarged to 112.

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