

Social Change and Urban Restructuring in Central Europe



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COMMERCIAL PROPERTY DEVELOPMENT IN BUDAPEST, PRAGUE AND WARSAW

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INTRODUCTION

This chapter describes the development of commercial property markets and analyses the impact of commercial property development on overall urban change in Prague, Budapest and Warsaw. Commercial property is seen as one of the key elements in the development of national, regional and local economies. It constitutes the necessary physical precondition for many kinds of business activities and forms an integral and vital part of land use in urban areas. Real estate is also an important segment of capital markets as it offers an alternative opportunity for the diversification of capital investments. Commercial property includes various kinds of office and retail accommodation, industry, warehousing and distribution buildings as well as hotels and commercially managed leisure facilities.

In the following, I will pay particular attention to relations between commercial property development and urban change, namely in terms of the reorganisation of land use patterns in the postsocialist city. The analysis will be focused on the new commercial property development projects planned and finished in the three capital cities after 1989.

The main emphasis will be on office accommodation, as this has been the most dynamically developing segment of the commercial property market in postsocialist cities. The construction of new commercial buildings and the refurbishment of old properties have already caused the most radical and visible changes in physical and functional aspects of spatial urban structure of postsocialist cities during the first half of the 1990s. As the trajectories of societal transformation toward market oriented capitalist society are at present largely determined, we can say that commercial property development has become one of the foremost and most powerful vehicles of transformation from a communist to a capitalist city.

The development of new commercial space has been stimulated by a rapidly growing demand for commercial premises that was generated by an increase in the number of newly established domestic private sector firms and foreign firms expanding their operations into Central Europe. Landlords, developers and investors reacted to growing demand for commercial space, quickly refurbishing old office, industrial and residential buildings and constructing new projects, which provide high standard office and retail accommodation. The dynamics of property development was primarily led by the office sector, which is concentrated in central urban zones. Retail, distribution, warehousing and light industry complexes have also been finished and/or are in the final stages of completion in suburban areas of all three cities. The new commercial property development already constitutes an important force that has substantially contributed

to a massive reorganisation of land use in the postsocialist city and will continue to reshape its urban geography in the coming years and decades.

In the first section of this chapter, I discuss the growth of demand for commercial space in city centres in the context of societal transformations in advanced societies, that have notably accelerated in the past two decades. Attention is devoted to the emergence of a postindustrial city, the globalisation of economic activities, changing urban form and government policies supporting commercial property development as a tool of local economic development and regeneration. I also attempt to highlight specificities of the Central European postcommunist societies. The discussion of urban commercial property development in the context of advanced societies is the basic starting point for the understanding of property development and the evaluation of the role of commercial property in urban change in Central and Eastern Europe.

The next part gives a general overview of the establishment, development and performance of commercial property markets in Prague, Budapest and Warsaw. Similarities and differences are highlighted. Each city is then examined individually and in detail. In particular, developments in office, retail and industrial sectors are examined. Next I discuss the main impacts of developments within the commercial property sector on overall urban change in Budapest, Prague and Warsaw. Conclusions summarise and highlight the main arguments and the most important findings.

SOCIETAL CHANGES AND THE GROWING DEMAND FOR COMMERCIAL SPACE IN CITY CENTRES

The role of commercial property development in reshaping contemporary cities in advanced countries must be seen in the context of several broader processes of societal change. The rapidly growing demand for commercial space was influenced by the transformation towards postindustrial society, a tendency which, since the early 1970s, has been radically speeded up through the globalisation process. The demand for commercial, and especially for office, space-generated property development in the central and some inner parts of the largest cities, brought economic revitalisation to these areas and a massive reshaping of their land use patterns. The supply of real estate was often supported by central government policies as well as by local entrepreneurially oriented political representations. They attempted to utilise different forms of public-private partnerships as a tool of local economic development targeted on derelict land of former industrial and warehousing complexes. The new commercial property development has, however, been a very selective process in terms of geography, focused on major urban centres; even within those it helped to revitalise only certain parts of their urban space. In the following paragraphs, I will review some of the major trends that form the general context in which the analysis of relations between commercial property development and urban restructuring should be placed. Although the description relies mostly on examples from Western Europe and North America, attention is also devoted to the specificities of Central Europe. The overview of major trends is to a certain extent reductionist in character. This is unavoidable when one attempts to give generalised information that abstracts from many specificities.

In advanced societies there has been a marked transformation from industrial to postindustrial society (Bell, 1973), that has significantly influenced the restructuring of economic and social life in major urban centres. The backbone for this transformation

was supplied by the shift of emphasis in the economy from production of goods to provision of services. The postindustrial city (Ley, 1980) has been characterised by deindustrialisation and consequent changes in the structure of economic production, the labour market and occupational structures. While secondary sector activities declined, tertiary and particularly quaternary were rising rapidly. The main contributors to this process were public and semi-public organisations, such as government offices, health and social care facilities and education and research institutions, consumer and retail services, and in the past two decades the rapidly growing sector of producer services. The changes of the economy during the transition from industrial to postindustrial society also brought changes in the nature of demand for real estate, with an increasing use of office, retail, hotel, light industrial and warehousing, and other types of commercial accommodation.

Similar long-term changes were also observable in communist societies; however, they have not matched the scale achieved in advanced societies. High levels of employment in the secondary sector were promoted by the communist government using the redistributive tool of central planning. In the largest urban centres and the capital cities, the industrial base was also maintained for ideological reasons, in order to keep a substantial level of blue-collar workers in the employment profile of the local urban population. The belated deindustrialisation and transformation towards the postindustrial model was one of the important structural characteristics of the communist city at the end of the 1980s. If postcommunist societies of Central Europe are to follow the pattern of economic and social change in advanced societies, a radical and speedy transition towards postindustrial cities must be expected. Deindustrialisation and the growth of unemployment among manual workers seem to be inevitable. However, the shift in employment towards an undeveloped service sector, namely retail and tourist services, can absorb a part of the workers influenced by deindustrialisation. The growth of more advanced activities, especially those associated with economic globalisation, is a question examined in the following paragraphs.

The most progressive change in large urban centres of advanced societies is associated with the growth of corporate activities, i.e. the institution of head offices and advanced producer (business and financial) services. The expansion of financial services, law and consultant firms, media and advertising, computer and telecommunication firms is part of a broad process of change called globalisation. The nature of globalisation lies namely in the organisation of production all over the globe. The major implications of globalisation for the commercial real estate market have been, first, the growing demand of firms for office space in central parts of the world's leading cities that have accumulated control functions and, secondly, the globalisation of property investments.

The process of globalisation has speeded up since the early 1970s. It can be seen as a reaction of producers to the decline of demand and increasing costs of production in the core countries of the world economy. The process has also been largely facilitated by the liberalisation of world commodity and financial markets and individual efforts of countries to attract foreign investments to their local economies. The major actors of globalisation were transnational corporations (TNCs) and their operation has been significantly supported by a new infrastructure of knowledge and information (cf. the concept of "information society"; Castells, 1993) that has been provided by business and producer services. The new international division of labour (NIDL), one of the outcomes of globalisation, has been characterised by a concentration of command func-

tions, i.e. the headquarters of TNCs and business and financial services supporting them, in major urban centres, now called world or global cities (Friedmann, 1986; Sassen, 1991; Knox – Taylor, 1995). The concentration of decision-making was accompanied by a shift of production to peripheral regions of home countries and/or to newly industrialised countries (NICs), both characterised by lower labour costs, weaker labour unions and more relaxed planning, environmental controls, etc. The reorganisation of production was also characterised by new forms of organisation that are often described as transformation from a Fordist to a post-Fordist regime of accumulation and/or as a move towards flexible accumulation strategies and procedures. The vital part of flexibility in the global economy's decision-making is generated by the infrastructure of producer services. Quick and correct information on new markets, fast transfer of capital, flexible marketing and advertisement strategies may serve as examples.

The growth of business and producer services that creates the basic infrastructure for the flexible operation of economic actors on a global scale has been the primary source of demand for new commercial space in large urban centres. However, not every city has benefited from the growth of this sector. In the academic literature, it is generally accepted that only major world centres, called global cities, and a small number of second rank centres have benefited from globalisation. However, TNCs and other major international firms participating in globalisation have also established branch offices in such cities as Amsterdam, Vienna or Copenhagen. Headquarters in global cities need locally specific information, together with support services in regions of potential expansion that are provided by lower ranking agents of globalisation. With the advent of political and economic stabilisation in Central Europe, these headquarters are also moving to cities of this region. Globalisation has its own internal hierarchy, and the diffusion of lower decision-making levels of global actors penetrates smaller and remote urban centres.

It is an open question whether the capital cities of Central Europe will attract command functions and a concentration of advanced service activities, and it is not yet clear which level in the global hierarchy they will occupy. This question is associated with the discussion of gateway functions of cities in the region and their respective advantages in the competition for such a role (Drbohlav – Sýkora, 1996). During the first transitional years, the three examined cities have certainly been the major entry points for foreign companies expanding their operations into Central and Eastern Europe. Due to the specific policies and legislation of the individual states, most companies, including those operating in real estate, established their offices in all three centres. In my opinion, the capital cities will all play gateway roles for their respective state territories and it is not likely that any city will evolve into a supra-regional node.

Globalisation and the move towards postindustrial society have been significantly mirrored in the urban restructuring of major urban centres (Sýkora, 1994). The internal structure of cities, namely the functional and social aspects of land use patterns, has been reshaped substantially. The growth of corporate functions and producer services has often been concentrated in central cities, leading to the intensification of their commercial use, revitalisation of economic life and the rehabilitation of their physical appearance. In many cities local governments and planning strategies attempted to redirect the bulk of office development to secondary centres or even to outer city zones; however, central cities remained in general the primary locations of new office development and redevelopment. The traditional nature of business decision-making based on face-to-face contacts has not been replaced by advanced means of communications.

The behaviour of top managers, who demand close spatial proximity to other services, is a basic factor behind office concentration in spatially narrow districts of central cities. The process of commercial real estate development, and especially the concentration of progressive activities that use the commercial space, have had spillover effects on the economic and social revitalisation of inner city neighbourhoods, typically, gentrification. Nevertheless, the process has been very selective and the postindustrial city is also characterised by growing social polarisation and the continued decline of some inner city neighbourhoods and even of post-Second World War suburbs.

The economic revitalisation of dilapidated inner city zones, especially those left behind by deindustrialisation, has been significantly promoted by local as well as national governments, attempting to attract economic activities through new programmes of urban policy and pro-entrepreneurial urban politics. Many of these programmes were aimed at stimulation of commercial property development and redevelopment. Commercial property development was seen as the basic precondition for attracting businesses that will increase local government revenues and promote local economic growth and prosperity. Local governments facilitated real estate development using land in their ownership, grants (for public improvements, subsidies, loans and investment), planning, land use regulatory mechanisms and control over the development approval process (Leitner – Garner, 1993, pp. 60–61).

A vast academic literature has been devoted to studies of both successes and failures in public policy towards commercial property development in central and inner cities. The scope of this chapter does not permit such a discussion (however, for a comprehensive review see, for example, Robson, 1988; Barnekov et al., 1989; Leitner – Garner, 1993). The attention of the public sector to commercial property development must, however, be seen within a wider context of change from welfare oriented approaches to urban development, that characterised the 1950s to 1970s, in favour of the 1980s' approaches based on promoting local economic development and entrepreneurialism. This change, which Bennett (1990) describes as a move toward a post-welfare paradigm in public policies, has significantly influenced and shaped the development and the supply of commercial property in central and inner city areas of postindustrial cities. However, the dominant orientation of economic development, apparent especially in the USA and the UK, has led to a neglect of social, environmental and community issues and has not often generated the expected economic benefits.

TRANSITION, TRANSFORMATION POLICIES AND COMMERCIAL PROPERTY DEVELOPMENT

The property market was quickly established at the beginning of the transition period. The main preconditions for the functioning of the real estate market were created by government-directed transformation policies aimed at the general introduction of a market economy. As far as real estate was concerned, the most important transformation policies were privatisation programmes, liberalisation of prices and rent deregulation. Privatisation of state assets redistributed a substantial portion of existing real estate among new owners and thus gave a strong impetus to the development of the market economy in general and property markets in particular. Liberalisation of prices and rents allowed the market to “function” in the narrow sense. Furthermore, changes in property-oriented legislation created fundamental rules for the operation of real es-

tate markets. Finally, liberalisation of foreign trade opened local property to foreign demand, including investment and property acquisition for development. Local real estate markets were exposed to the international market and property development became one of the most internationalised parts of local economies, especially in capital cities.

There were several factors that influenced the establishment and development of real estate markets in the Czech Republic, Hungary and Poland. Firstly, property markets were re-established, as they had existed before the communist period. Consequently, it was possible to build upon traditions in real estate related legislation and existing systems of property registry. Despite certain shortcomings, it allowed, for example, for an extensive process of property return (reprivatisation, restitution) in the Czech Republic. Secondly, despite a severe limitation of private ownership during communism, it had never been removed totally. For example, single family housing in all three countries and a large proportion of agricultural land in Poland were still in private ownership. Furthermore, the prices paid on the "black market" for land zoned for construction of single family houses, trading with family houses or the "exchange" of flats in state or co-operative housing can serve as examples of how the population perceived property as a commodity, and as an object to be traded at "markets" (see also the discussion of "protomarkets" in Fassmann and Lichtenberger, 1996, pp. 19-20). Despite the efforts of the communist state to de-commodify property relations, the imposed rules were not able to change the nature of human behaviour. Thirdly, the relatively smooth transition to the market economy created favourable conditions in which the domestic sector started to grow and foreign firms were attracted to start up operations in the region. Political stability and positive economic developments increased the credit given to the three countries by foreign investors, fuelling the development of new commercial properties and the marketing of existing real estate.

The establishment of property markets has been an integral part of a wider set of transformation processes aimed at the establishment of new rules of the game. The process of commercial property development has thus been an outcome of the mutual relations between newly introduced principles of urban economy and existing structures of the property environment. Property development in postsocialist cities must be seen against the background of relations between old and new, where the old is represented by existing physical structures of built environment and the new is supplied by changed economic principles and the emergence of actors with behaviour, preferences, needs and demands that often do not correspond to the conditions of the existing real estate.

The communist system was characterised by a substantially lower need for premises which, in a capitalist city, are used as commercial space. The type of activities that would correspond to producer services were undeveloped or did not exist at all. Even retail space, a basic facility that should, according to communist ideology, have been developed to benefit all citizens, has been scarce in comparison with advanced western societies. The physical structure of the communist city was not prepared to accommodate a bulk of demand for commercial space generated by the establishment of internal market economy conditions and the liberalisation of foreign trade relations. While the new principles of the economic game can be introduced quickly and the emergence of new economic and social agents and institutions soon follows, the change of old structures of the built environment is subject to the force of inertia.

The commercial space is that part of the built environment which shows a very high disparity between land use in the socialist city and in the capitalist city. If the postso-

cialist cities are moving in the direction of contemporary advanced societies, then this gap is likely to be closed. Since contemporary urban development in western countries, as well as in the three postsocialist countries under examination is primarily driven by the private sector, whose priority is to produce and consume commercial real estate rather than housing, transport or other aspects of public sector infrastructure, commercial property development is going to be the most prominent type of new construction and reconstruction that will change the face of postsocialist cities.

There are not only disparities between the type and quantity of functions in the communist and the capitalist city, but also substantial differences in the spatial dimension of land use patterns. While the central parts of large cities in capitalist societies are highly commercialised and residential functions are severely limited, communist city centres were characterised by a lower share of office and retail space and a higher share of residential space. Importantly, due to the insignificance of differential land rent, they also contained a substantial share of other uses, such as manufacturing workshops and production facilities and warehousing, together with a very low economic utilisation of downtown premises and vacant spaces, abandoned due to the dilapidation of buildings with insufficient maintenance. Functional gaps appeared at the time of the changeover between the two systems of distribution of resources in society (Sýkora, 1993). Functions that could exist in valuable central city locations during the communist urban economy were quickly replaced by activities with higher space utilisation. Furthermore, the neglect of the central and inner city building stock during communism created the potential for redevelopment and reconstruction. This represented a challenge for the property development industry that faced a growing demand for commercial property. The potential could be fulfilled as a result of privatisation programmes, price and rent deregulation and liberalisation of foreign trade.

Another point of difference between the capitalist and the communist city can be found in suburban localities characterised by a concentration of shopping centres and distribution facilities. The retail sector was generally undeveloped in communist societies, existing retail outlets were concentrated in central city locations and the development of suburban shopping facilities was lagging behind the construction of housing. In Prague in the late 1980s, nearly half of all retail turnover for standard goods (all retail goods excluding fuel and construction materials) was concentrated in the city centre, where only 5% of the population lived. The suburban shopping malls of the western type did not exist at all.

What is likely to happen during the transition from a communist to a capitalist city? Commercial property virtually did not exist in the communist city. There were buildings that could be used for commercial purposes, but were utilised by state companies or co-operatives for owner-occupation. With the privatisation of state assets, the growth of private businesses and the liberalisation of trade, opportunities arose for commercial use of existing structures. Furthermore, existing office, retail, etc., facilities have become a real commodity. Their exchange is no longer subject to state control and new regulations correspond to those of market systems. Commercial properties can be used for owner-occupation, sold or leased out. Property rights can be exploited. Commercial real estate is not only a physical shell in which business activities are taking place, it is also the object of marketing.

Only a limited portion of existing real estate is suitable for the accommodation of new advanced functions that emerge during the transition. In particular, the western firms expanding their operations in Central and Eastern Europe demand facilities and

standards which are not fulfilled by existing premises. Furthermore, the demand is much higher than the supply based on the redistribution of existing space. Consequently, several mechanisms and strategies have developed. The redistribution of existing spaces was used during the first years of transition. This included the redistribution of commercial space as well as reuse of vacant premises and conversion of residential space to commercial use. Many premises redistributed in the first years were obsolete; with the growing supply of reconstructed and newly built premises they will be subject to vacancy and dilapidation. Some older real estates, especially buildings in valuable locations and often those of historic significance, have been reconstructed to higher standards. In this way, new activities were able to enter the most prestigious central locations quickly. Refurbishment was also undertaken by foreign retail chains after acquisition of existing shopping centres. New commercial real estate has been constructed as well. It has filled in scarce vacant lots in central locations and explored possibilities of building commercial real estate on certain inner city sites, both locations to be used principally for offices. Developments, which utilise suburban areas, have appeared in the sphere of retail, distribution and warehousing complexes.

THE ESTABLISHMENT AND PERFORMANCE OF COMMERCIAL PROPERTY MARKETS IN BUDAPEST, PRAGUE AND WARSAW

Political and economic reforms established the necessary legal and material conditions for the development of market economies and property markets in particular. It allowed for and stimulated the development of a domestic business sector as well as foreign businesses. The rapid expansion of the private entrepreneurial sector caused growing demand for office and retail space. The most influential domestic firms have been banking and other financial services. However, most of the demand for commercial space came from international firms expanding their operations to Central and Eastern Europe. Their demand for office space accelerated immediately after the political changes in 1989. It was concentrated in large and capital cities and on their central and inner city locations in particular.

The demand was not met by a sufficient supply of commercial real estate. The capacity of existing premises was very limited and they did not meet the standards required by international companies. There was only a small number of better quality buildings used by state-owned foreign trade companies. At the beginning of the 1990s, the existing commercial space was quickly redistributed among new owners and tenants. In many cases, hotel rooms and residential premises were used to establish operations of foreign firms in Central European cities.

The general lack of commercial premises, especially prime quality office space, influenced the development of new commercial property projects that have substantially changed the character of the central parts of urban areas. Due to the scarce quantity of land for development in central city locations, the interest moved towards certain inner city districts and outer city areas in the mid-1990s. This spatial shift is also conditioned by the change in the composition of commercial property development. At the beginning, the property development industry was focused nearly exclusively on offices. More recently, retail, warehousing and light industrial space, all with a strong

spatial preference for suburban locations, have been attracting more attention. Furthermore, most of the demand during the first transitional years was generated by newcomers who required small premises. At present, demand is largely coming from existing and expanding companies, that need much larger space for their operations and are often looking for cheaper locations outside the prime property zones. Most of the new and reconstructed commercial buildings have been financed, developed and traded by foreign firms. Foreign firms act both as significant producers and consumers of new and high quality commercial space. Consequently, commercial property development has become one of the most internationalised sectors in the urban economy of post-socialist cities.

The development of commercial property markets in the three cities under examination exhibits certain similar features as well as important differences. Similarities are determined by the general direction of transition towards market-oriented economies and democratic political regimes and similar starting conditions. Differences are characterised by different types of transformation policies applied in individual countries, diverse historical development of economic structures, as well as different social relations, technical infrastructure and settlement and regional systems (for a sensitive comparison see Fassmann and Lichtenberger, 1996, pp. 17–18); also by the individually specific features of local physical, economic and legal environments in the three cities.

The most important common feature, that has created an analogous background for property development in all postsocialist cities, was the general lack of premises for commercial use contrasting with a rapidly growing demand for modern office, retail and industrial accommodation. The lack of domestic capital for property development and the attraction of investment finance from western sources have been other common features. Foreign investors and developers were attracted by very high yields in comparison to western countries, while being discouraged by uncertainty about political and economic development, inadequate knowledge of local planning procedures and other regulations, and the slow development of a legal and institutional background for the real estate business.

There are a number of conditions that influence the character of demand for commercial space in Budapest, Prague and Warsaw. The three capital cities are the largest settlement centres in their countries. They also have a large share of the tertiary and quaternary sector activities. All three cities are the countries' major centres of banking and other financial services (Klagge, 1995; Stryjakiewicz – Potrzebowski, 1995). In 1993, Warsaw had 43.5% of bank headquarters and as much as 67.5% of the total equity capital applied to banking (Stryjakiewicz – Potrzebowski, 1995). Prague had 83.9% of the total equity capital in the Czech banking sector in 1994 (Blažek, 1996). The capital cities are also the main locations for the headquarters of the largest firms and firms operating in the sphere of producer services, both demanding a high amount of quality office space. Headquarters of 67 out of the 200 largest firms in the Czech Republic are located in Prague and the city has more than 50% of the firms engaged in producer services (Blažek, 1996).

The demand for high specification office accommodation in Budapest, Prague and Warsaw is especially fuelled by foreign and international firms. By the end of 1996, 31.4% of firms registered in Prague were in foreign or international (partly foreign and partly domestic) ownership. In 1992, Budapest was a seat of more than half of the total number of enterprises with direct foreign investments in Hungary. Already at that time, foreign capital was involved in nearly 30% of the economic organisations with legal

status located in the Hungarian capital. The growth in banking, financial and other business services and the expansion of trading operations of western firms to Central and Eastern European countries are the major factors behind rapidly growing demand for commercial (i.e. office) space in all the cities concerned.

Different approaches to economic transformation, their rate of progress and the degree of political stability or turbulence created basic background conditions that influenced the speed of development and variations in performance of newly established commercial property markets in postsocialist cities. Hungary was the first country to re-establish a market environment. Consequently, most foreign firms expanding into Central and Eastern European countries based their operation and invested their capital first in Hungary. However, recent political changes and a slowdown in Hungarian economic development have caused a shift of attention towards the Czech Republic and Poland. In Poland, the crucial decision to move quickly towards a market economy was made under the "shock therapy" of the Balcerowicz plan as early as in January 1990. Although the low stability of the Polish politics and the slow progress of reforms discouraged some foreign investors, the larger size of the Polish market, its diversity and the country's high economic growth attracted the attention of many others. In the Czech Republic, radical economic reform was launched in January 1991. The later start of political and economic transformations in the Czech Republic was soon compensated by rapid progress in moving towards a liberal economic system. Advanced transformation in the Czech Republic attracted the attention of international firms, stimulated growth in foreign direct investments, and was institutionally recognised by the fact that the country was the first to enter the OECD.

While demand for commercial premises reflects general trends in economic restructuring at international level and economic and political developments at national level, supply is to a great extent conditioned by specific local circumstances. In 1990, there was virtually no office space of international quality in any of the three cities. In the early 1990s most of the demand was derived from the growing number of new companies. In the mid-1990s a shift appeared and demand thereafter was fuelled mostly by the expansion of existing firms. The demand stemming from newcomers was focused on smaller offices up to 500 square metres; firms usually accepted low quality office space and locational choice was restricted by limited supply. The demand of established and expanding companies is in the range of 1000–5000 square metres of office space; they require high quality accommodation and have specific locational preferences. This has important implications for structural shifts in the office market and mirrors its growing maturity. After years of customers being driven by the limited supply, differentiated demand is beginning to play an important role on the commercial property market.

Until 1996, there was very limited activity in the investment market in any of the three cities. The exceptions were acquisitions of new commercial buildings for owner-occupation. Examples are purchases of new and refurbished buildings by the Czech Trading Bank, Czech Investment Bank, and the insurance companies Generali and Allianz in Prague. Deutsche Bank's acquisition in Warsaw is another example. In Budapest, the new Bank Centre was sold to a Hungarian investment company, Bankár, in 1996. However, a true investment market with involvement of major pension funds and investment trusts has not yet been developed. No significant transactions have been completed on existing investment properties. The main reasons are the limited number of buildings suitable for institutional investments, underdeveloped legislation and un-

clear regulation concerning property ownership and the perception of postcommunist countries as higher risk countries. The uncertainty and risk have outweighed the attractiveness of high yields, that are in the order of 10–13%. Nevertheless, in 1996 real estate agencies reported a growing interest of institutional investors in Central and East European property markets.

CITY PROFILES

The following section gives an overview of commercial property development individually for each of the three cities. In each city profile, a brief introduction is followed by the description of three major segments of commercial property: office, retail and industrial property. Despite the strong emphasis on a comparative perspective, there are certain limitations which do not allow for a straightforward comparison. In the case of Prague, the information presented is based on long-term research into commercial property and especially office development (Sýkora – Šimoníčková, 1994, 1996; Incoma, 1994, 1996). The data about annual construction of commercial space are exactly calculated from a database that registered virtually all major newly built or reconstructed properties since 1992. The description of commercial property in Budapest and Warsaw is based on information extracted from real estate journals, marketing and research materials provided by real estate agencies, as well as limited academic literature and interviews. The major limitation of such sources is that they give information which is often based on partial knowledge and differs substantially from case to case. The assembled information is given in the form of city profiles which can be used for comparison of commercial space development in the three cities.

BUDAPEST

Hungary, and especially its capital Budapest, have until recently been the most important destination for foreign investments and foreign firm activities in Central Europe. This position has significantly influenced the earliest development of the commercial property market in the region. However, the situation changed after the elections in May 1994, which brought to power a centre-left coalition of the Socialist Party and the Alliance of Free Democrats. Many western investors, the major actors on commercial property market, were sensitive to changes in the nature of political representation, as they expected to see a slowdown of the privatisation process. However, Hungary's situation proved to be stable and the government has continued its efforts to establish a market economy, which has had implications for renewed confidence and activity in the commercial property market since 1996.

Offices. Budapest's office market emerged in 1990. In 1996 it was the only well-established competitive real estate market in the city compared to the emerging markets of retail and industrial premises. The main office district is on the Pest side of the Danube within the Szent István körút – József körút Ring Road. In the centre of this zone is the prime office area of the 5th district (Central Business District = CBD), which is encircled and delimited by the Károly körút – Múzeum körút Ring Road. The 5th district is a traditional office location, which accommodates the majority of the government offices, banks and other financial institutions. This area also contains the city's major shopping streets.

The Budapest office market is divided by real estate companies into two main sectors: first class offices of international quality and a quantitatively large sector of second-hand office space (DTZ Hungary, 1995). The total stock of both sectors was estimated by DTZ Hungary (1995) at about 2 million square metres of office space and the total stock of western quality office space was approximately 350,000 square metres in 1995. Jones Lang Wootton's City Profile Budapest (1996) estimates the total stock of western standard offices at 450,000 square metres. The development of the first class sector is mostly driven by international clients, while the second-hand sector can hardly attract western type occupiers.

During the first half of the 1990s, demand for office space was generated mainly by foreign companies entering the Hungarian market. To limit their exposure to risk from capital expenditure, they mostly looked for leases of office space. The market was to a certain extent saturated by property on offer from domestic companies, which reallocated their offices to fringe areas and released central sites for western tenants. However, due to the inadequate quality of such office space there was also potential for development of new high specification office projects. Due to lack of domestic financial and technical know-how, this field became dominated by foreign developers/investors. DTZ Hungary (1995) states that 95% of new developments of first class offices were financed from abroad.

Until 1991, there were very few buildings of a good quality. Virtually all the international standard office space was built after 1990. The majority of new developments in the early 1990s were located within the narrow CBD and in its near vicinity. In particular the new branches of banks concentrated in the CBD (Kovács, 1993). According to Redding and Parsa (1995), five schemes were completed in 1991 to provide a total of 32,000 square metres, of which half of the floorspace was accounted for by the East-West Business Centre. In 1992, 16 schemes provided a total of 64,500 square metres of office space, and in 1993, 19 schemes brought an additional 71,000 square metres of office accommodation (Redding – Parsa, 1995). Kovács and Wiessner (1994) record an annual development of 80,000–105,000 square metres of office space in the city during 1991–1992. The substantial difference in figures provided by these two sources can be explained by incorporation of Hungarian office construction in Kovács and Wiessner database, while in Redding and Parsa these offices are probably omitted.

Supply of modern office accommodation was estimated by Jones Lang Wootton (1995a) at 75,000 square metres in 1994. The most important buildings with international tenants that came on the market in 1994 were the 12,000 square metres Madách Trade Centre and the comparable EMKE Building. However, these new buildings have been letting slowly. The new developments substantially increased the stock of modern offices while demand decreased and oversupply of office space appeared. In 1996, a unique large complex of 30,000 square metres called Bank Centre developed by a Canadian investor/developer was finished. The project was also partly financed by the National Savings Bank (OTP) which will occupy about 50% of the total space. The other tenants include prominent institutions such as the World Bank, the United States Embassy, etc.

Property development has been dominated by Austrian developers and banks, although several projects have also been completed by German, French, Swedish and Finnish developers. The only project completed by a North American company is the Bank Centre. Capital for office development has largely been provided by Austrian and German sources. Lack of financing from domestic sources is seen as the major obstacle

to the development of commercial property. Hungarian banks are reluctant to lend money for real estate investments as "they got their fingers burnt in this market some years ago" (Malmstrom, 1995). Due to lack of trust in local contractors, foreign developers and investors have often used foreign contractors. Supervision and site management have usually been fully controlled by Austrian/German engineers and the raw material, fittings and finishing are also in many cases imported from abroad.

The major users of newly constructed office space are western companies and joint ventures. The demand for international quality office accommodation has been primarily from German, Austrian, US, French, Italian and UK companies. The most active were financial services, such as banking and insurance, business services and trading operations of manufacturing companies. Until 1996, the demand for office space was primarily driven by the entrance of new firms. Since then, it has largely been generated by the growth of already established companies.

Only a limited number of Hungarian firms demanded high quality office space. The main reason was the high rental rates for new and high standard office space. While most foreign firms could expect the support of their parent companies, Hungarian firms were affected by the economic recession, and were unable to draw on external help. Hungarian firms also do not have the same high expectations of office quality as foreign companies. Consequently, domestic companies are using existing old and substandard premises, which in some cases have been reconstructed to higher specifications.

The demand for high quality office space has been concentrated principally in the city centre. However, there is an increasing perception that downtown locations are not necessarily the best locations in Budapest. An increasing number of tenants prefer to have easy access and parking facilities rather than a spectacular downtown location (DTZ Hungary, 1995). International companies also examine the cost/benefit ratio of location in prime office buildings. Colliers International (1995) noted moves of many companies away from the prestige of prime buildings to functionally comparable but cheaper offices. Many new developments are being constructed outside the existing business core and decentralisation of office development within the metropolitan area of Budapest has started. The necessity of being located in the CBD is limited mainly to banks and other financial institutions, business services, such as international consultancies, auditors and law firms, and headquarters of major international companies. The mass demand for office space is, however, coming from trading companies which do not necessarily need to be located in the CBD.

The typical lease for office accommodation is 3–5 years (Malmstrom, 1995; DTZ Hungary, 1995; Jones Lang Wootton, 1996b). The take-up for new rental space was estimated at about 40,000–45,000 square metres/year for 1993 and 1994 (Malmstrom, 1995; DTZ Hungary, 1995); it decreased in 1995 and is expected to grow to 50,000–60,000 square metres/year in 1996 (Jones Lang Wootton, 1996a). The vacancy rate for international quality office space was estimated at around 10–15%. Rents in Hungary are nominally paid in HUF, although they are often quoted and denominated in a foreign currency, usually DEM. After reaching a peak of DEM 60/square metre/month for best quality office space at the beginning of 1992, rents have stabilised at DEM 45–50. The 1995 downturn in demand has caused a decrease of rent levels. The upper rental level for the highest quality office space in the best locations is DEM 45–50/square metre/month. Rents in secondary locations in new buildings are DEM 25–40/square metres/month. Rents are being increasingly differentiated according to location and quality of space (Malmstrom, 1995).

Investment activity is limited to development projects and acquisitions for owner-occupation. The majority of development and investment activity has come from foreign, especially Austrian, German and French companies. However, there has been virtually no institutional interest and the real investment market for commercial property is not yet developed. Only in 1993 was there a small number of investment transactions, the most notable of which was the Dutch property fund Wereldhave's purchase of the Amfi Centre, a 1900 square metres office building (DTZ Hungary, 1995). In 1996, yields were estimated at about 10.5–13.0% (Jones Lang Wootton, 1996a). The East-West Centre, developed by Skanska of Sweden, may serve as an example, being for sale at price indicating a yield of about 11%.

Retail. There was already a substantial growth in the number of privately operated retail units during the 1980s. However, by the end of the 1980s the sector was still dominated by state-owned and co-operative enterprises (Redding – Parsa, 1995). At present, the city and district local governments still retain ownership of the majority of small retail units in major shopping streets. These units are leased on “*bérleti jog*” (specific local legislation regulating rental rights) agreements. Due to pressure from central government and retail organisations, “*bérleti jog*” agreements are slowly changing into normal market leases, or the occupiers are allowed to purchase their units (Jones Lang Wootton, 1996b).

Much of the retail in Budapest is located within established areas of the city centre, bounded by the Szent István körút – József körút Ring Road. The prime shopping streets are Váci utca, Petőfi Sándor utca, Kossuth Lajos utca and Rákóczi út. This is also the area that predominantly contains tourist and service functions. Retail units are located in existing old buildings with limited flexibility for internal organisation. A small number of high standard retail premises were introduced in newly constructed commercial buildings for mixed use. Rents in Budapest's principal shopping area are around DEM 150–200/square metre/month.

There are secondary centres of retail trade located at public transport intersections in Budapest's newer neighbourhoods and in the historical centres of the older neighbourhoods along thoroughfares. Many of the existing shopping facilities were acquired by international retail chains. New retail developments in these locations are represented, for example, by the high profile Ikea store. Recently, two small shopping centres, Budagyöngye and Süba Centre, were finished and appeared on the rental market. Duna Plaza is a project constructed in the northern part of Pest, and is the first large-scale shopping centre with 29,000 square metres of retail space. Opened at the end of 1996, the Pólus Centre, the biggest retail complex in Hungary, is using reconstructed barracks vacated by the Soviet Army. Duna Ház is located south of CBD on the river embankment on the site formerly intended to be redeveloped for EXPO. It contains 6750 square metres of shopping space and luxurious apartments.

The already mentioned “*bérleti jog*” and problems with site assembly in the city centre have encouraged the development of out-of-town shopping centres. Buda Park, Shopping Centre Budapest and Tó Park are examples of massive projects southwest of the city near junctions of highways heading to Vienna and Lake Balaton. Metro supermarket (10,000 square metres) and Tetra Pak are the first projects built within the 50 hectare development site of Buda Park. Tesco from England has acquired a 28,000 square metre site to build a 4000 square metre superstore.

Foreign retailers have become a very significant force in the city. Familiar names such as Marks & Spencer, Ikea or McDonald's quickly established their operations.

Some international retailers have located themselves within the central city area, especially along the Váci utca and adjoining streets. Food retailers, such as Julius Meinl, Delhaize, Spar or Billa, established their outlets across the city. The usual strategy of foreign expansion in local markets is to acquire existing operations or to establish joint ventures with local partners, both of these routes allowing for a quick acquisition of existing properties. The main examples are Julius Meinl from Austria that has acquired a majority stake in the Csemege grocery store chain, the German retailer Tengelmann which has bought into the Skála Co-operative group, and Louis Delhaize of Belgium which has acquired a majority stake in wholesaler Duna Fűszért.

Industrial and warehousing. Large amounts of space for simple storage use can be leased in existing outdated factory and warehouse buildings for minimal rents (DEM 2–5/square metre/month). However, much of this stock is redundant in terms of modern requirements. Modern warehouse/light industrial premises meeting current European standards are lacking. There has been virtually no speculative industrial and warehousing development yet. The main reasons are high land prices and the focus of international finance on office developments in the centre. Modern industrial warehousing can command rents around DEM 10–15/square metre/month. Due to the acute shortage of clean, heated, modern industrial warehousing available for lease, companies requiring large-scale modern space (5000 square metres and upwards) often build their own premises or seek a developer that will build it on a turn-key basis. The highest potential for development of industrial properties is at the major junctions of the motorway network around Budapest, particularly around M0 and M1 motorways.

PRAGUE

The most important impetus for the development of commercial property market in the Czech Republic has been government privatisation programmes and rapid liberalisation of prices. Privatisation has quickly redistributed a high proportion of state assets to a large number of private owners. The most important consequences for the real estate market have resulted from the restitution process, which brought reprivatisation of land and buildings to persons (or their heirs) who owned properties before the communists came to power in 1948. Restituted properties have been sold freely on the property market since 1991.

Rapidly growing demand for commercial space was concentrated principally on the capital city of Prague and especially on its downtown locations. In central Prague, many buildings, as well as the streetscape and the overall character of the historical centre are protected. This has a strong impact on the character of property development and redevelopment in the most valuable locations. There have been only a few vacant plots of land available for new construction of commercial centres. Therefore, acquisition and refurbishment of existing buildings have become the most important strategy in Prague's real estate market. Nevertheless, vacant land has been leased or purchased and new commercial buildings have already been built, or are now being constructed or are in the final stage of preparation.

In 1993–1995, about 70% of newly built or refurbished offices were concentrated in the city centre. The capacity of the city centre will soon be exhausted and in coming years the construction of offices will shift to adjacent inner city locations. Multipurpose complexes are in preparation in the outer city zone, accompanied by large shopping centres, industrial buildings, warehousing and distributional centres.

Offices. The city of Prague has a distinct business core that is located within the historical districts of Prague 1 and Prague 2. The centre contains over half of the total city office stock, and about half of Prague's retail turnover is realised here. Approximately one third of all jobs are concentrated in this area (Sýkora – Štěpánek, 1992). At the same time, only 5% of the population lives here. The residential function of this part of the city has been steadily declining since the beginning of the 20th century, while government buildings, banks and office buildings are increasing their share of land use. This process accelerated after 1990 and by 1995 about three quarters of all floorspace in the historical core (Sýkora, 1995) had been in non-residential use. The main office buildings are spread across the city centre with the highest concentration of commercial space in the New Town and Old Town on the right bank of the River Vltava. The left bank part of the historical core is characterised by the concentration of government, parliament and president offices.

In 1995, the total stock of office space in the city was estimated at about 2 million square metres (Incoma, 1996), out of which 100,000 square metres were located in newly constructed commercial centres (built in 1993–1995) and an additional 210,000 square metres in refurbished buildings (entering the market in 1992–1995). In the second half of the 1990s, the annual supply of offices in new buildings will reach 50,000–70,000 square metres and additional space in refurbishments will bring the total annual supply of new and refurbished office space to about 100,000–130,000 square metres (Incoma, 1996).

Political and economic reforms stimulated the development of the domestic business sector, which in turn stimulated demand for commercial premises. The most influential sectors have been banking and other financial services. However, an important demand for commercial space came from international firms expanding their operations to Central and Eastern Europe. By the end of 1996, 31.4% of the firms registered in Prague were in foreign or international (partly foreign and partly domestic) ownership. Their demand for office space accelerated immediately after the political changes in 1989 and was concentrated on large cities and on their central and inner city locations in particular.

At the beginning of the 1990s, the demand for commercial real estate was not being met. The capacity of existing premises was very limited and they did not offer the standards required by international companies. There were only a few better quality buildings used by state-owned foreign trade companies such as Motokov, Strojimport, etc. In 1990–1992, the existing commercial space was quickly redistributed among new owners and tenants. However, the amount of disposable commercial space was severely limited and in the context of rapidly growing demand, hotel rooms and residential premises were used to establish business operations. The demand for high specification office accommodation was especially fuelled by foreign and international firms.

Landlords, developers and investors reacted to the growing demand for commercial space by refurbishing old offices, industrial and residential buildings and constructing new projects, which provided high standard accommodation. In 1991–1992, first “business centres” appeared on the market. They were based on the provision of common secretarial services for a few small business firms. Quite often they were used only for the purposes of acquiring a “good address”, i.e. mail delivery. These “business centres” were opened in hastily refurbished restituted houses and used by both domestic and foreign companies. During 1991 and 1992, most transactions on Prague's real estate market were in the sphere of redistribution of current building stock, and properties on offer were mostly refurbishments which often did not meet required standards. Never-

theless, due to a high scarcity of available commercial space, extremely high prices and rents (up to DEM 100/square metre) were asked. During the second half of 1993, the first large new developments and top level refurbishment projects were realised. This helped to stabilise rent levels in the office sector at about DEM 50–55/square metre/month for new offices and top refurbished space in prime locations. This rent level has remained steady and there are no expectations in major changes of this trend.

In 1993, the first major (and hitherto the largest) post-1989 new office project, the International Business Centre (IBC) containing 24,000 square metres of offices, arrived on the market (the largest office accommodation in a single building is the Motokov building constructed in the 1980s, that offers 36,000 square metres). A major refurbishment project, the Betlém Palace reconstructed by a Czech construction company Konstruktiva, has a total floorspace exceeding 10,000 square metres including 5000 of net office space. During 1994, six middle-sized projects of new office accommodation added 27,300 square metres of office space. Two projects were developed by foreign firms and four others were initially built by Czech companies for their own use, but later fully or partly offered for lease or sale. The foreign financed projects are located in the city centre and its vicinity, while domestic buildings are in the inner and outer city, a feature which clearly distinguished foreign and domestic investments in office developments at that time.

In 1995, 43,400 square metres of new office space in ten buildings were added to the city stock. However, it must be noted here that only newly constructed and fully reconstructed and refurbished buildings are accounted for. At the same time, a large number of small repairs and changes in use brought additional office space. Nevertheless, this office space is likely to be used temporarily, since it will not be able to compete for users with newly built office centres when a more balanced situation between demand and supply has been achieved. The major development in 1995 was the Prague City Centre with 17,500 square metres of net office space, which is located at the historical core of the city. In both years (1994 and 1995), a substantially higher portion of office space was supplied in refurbished buildings. This feature of recent office development in Prague will change in coming years, when possibilities for reconstructions will be exhausted, local governments will control transfers of residential buildings to commercial use more tightly and last but not least the nature of demand will shift requirements to larger and flexible office spaces that cannot be offered in old buildings. Nevertheless, the market for refurbished historical buildings in the city centre will retain its status of a specific niche consisting of the most prestigious locations in the historical core, in which the possibilities to build new offices are severely restricted by the protection of the historic city (Sýkora, 1995).

Most of the new and refurbished office buildings offer less than 5000 square metres of total office space. In 1992–1995, there were only five newly constructed and two refurbished office centres with a capacity exceeding 5000 square metres. A number of commercial projects were finished in 1996, adding new offices in the city centre. The largest (Myslbeč) contains 17,600 square metres of office space, 6400 square metres of retail space and a further 1200 square metres used for cultural purposes.

Recent developments on the real estate market in Prague show a substantial structural shift of demand. While in the early 1990s most of the demand was derived from the growing number of new companies, since the mid-1990s it is fuelled mostly by the expansion of existing firms. The demand from newcomers was focused on smaller offices up to 500 square metres; firms usually accepted low quality office space and

location choice was restricted by limited supply. The demand of established and expanding companies is in the range of 1000–5000 square metres of office space, and they require high quality accommodation as well as having specific location preferences. This has important implications for the development of the office market and mirrors its growing maturity. After years when customers were driven by limited supply, differentiated demand is beginning to play an important role in the commercial property market. Another major shift that characterises Prague's office market in the second half of the 1990s is the change in the geographical pattern of new developments. As the potential sites for office development in the city centre are exhausted, new projects have already been launched or are planned in the inner and outer city. This change is also stimulated by the differentiation of demand, when some companies or their branches need modern and efficient office space, but the nature of their operations means that they do not necessarily require to be located at the heart of the city.

In coming years, there will be higher demand than supply, high take up rates, low vacancies, stabilised rents and reasonably high yields that will bring Prague's office market to its full maturity around the year 2000. In 2000, the total commercial office space in Prague will amount up to 2.7 million square metres, still less than in comparable western cities.

The major barrier for the development of real estate has been the lack of finance from domestic sources. Due to the absence of available domestic capital, foreign investments have played a major role in property development, which has become one of the most internationalised sectors in Prague's urban economy. Most of the new constructions have been financed, developed and traded by foreign firms, especially Austrian, German and French ones. Furthermore, the majority of new users were also foreign firms or joint ventures. The largest amount of office space in January 1996 was occupied by US, German and Austrian firms, followed by companies from the UK, France, Switzerland, Sweden and the Netherlands (Sýkora–Šimoníčková, 1996).

Investment activity has so far been limited to development or acquisition for owner-occupation. There has been no activity by major international institutional investors and a true investment market has not yet developed. Foreign investors and developers were attracted by very high yields (10–13%) by comparison to Western Europe, while being discouraged by uncertainty about economic developments, inadequate knowledge of local planning procedures and an uncertain legal and institutional background for the real estate business.

Retail. The development of the retail sector has been strongly influenced by government privatisation policies. Restitution and small privatisation (Earle et al., 1994; Sýkora – Šimoníčková, 1994) substantially changed the ownership or rights of use in real estate on which small retail businesses are located. For instance, in the small privatisation process, 2500 small retail units were auctioned in 1991–1993. Furthermore, most of the central and inner city properties were returned to private ownership in the restitution process and the newly emerged private landlords attempted to put their property to more profitable use. New leases were signed and the structure of retail services changed radically, especially in tourist areas of the city centre. Shops with household goods serving the local population were replaced by luxurious outlets targeted at businessmen, foreigners and tourists. Rents in the prime retail areas are in the range of DEM 150–200/square metre/month.

International retailers such as Benetton, Ikea, K-mart, Levi's, etc. established their outlets in Prague. Fast food chains, such as McDonald's, Harveys, Kentucky Fried

Chicken or Pizza Hut, have also been active in recent years. Several major international operators are currently introducing their products to the city, Marks & Spencer and Tesco being the most prominent. The first important retail developments in the central city area were accomplished only during 1996. Most changes were realised within existing premises. A remarkable retail development has been Pavilon, a refurbishment of an ornate 19th century market place into a fashionable shopping arcade. However, the high price profile of retail services in Pavilon is in contrast with its location in inner city neighbourhood distant from major tourist paths and with very limited possibilities for parking. Other commercial projects that contain retail space and have been developed in the city centre are the Myslbek centre, and the Darex and Koruna Palaces, all offering accommodation for a number of smaller outlets around a shopping arcade.

In inner and outer city areas, local shopping centres have been purchased and refurbished by international retail chains, such as Julius Meinl, Plus Discount or Delvita. Recently, the development of new retail facilities has been attracting growing interest. New constructions on green field sites are focused on food supermarkets with high turnover and do-it-yourself outlets. A number of out-of-town shopping centres are under construction and in preparation. There is a growing number of newly finished facilities that are usually for owner-occupation and not for the letting market. These include Nico, Pronto Cash & Carry, OBI, Global, etc. Large retail concentrations are being realised on the city outskirts. Ikea will soon move to a newly built superstore located at the western city boundary, close to an underground station and next to the D1 highway to Germany. In the same location German furniture retailer Walther will build a large shopping centre and the developer Lordship intends to supply retail space in a commercial centre at Prague West. Similar developments are being conducted in the eastern part of the city (the shopping centre Černý Most opened in autumn 1997) and at the edge of the South Town housing estate within the Commercial Industrial Zone, both located next to highways and on underground lines.

Industrial space and warehousing. Prague has virtually no modern warehousing or industrial space and most developers do not seem prepared to undertake a development scheme speculatively. For example, Hostivice Warehouse Park located west of the city has been advertised for a number of years, but no construction activity has yet taken place. Consequently, many occupiers are finding that they must construct their own accommodation, often with bank financing (Jones Lang Wootton, 1995c).

While several projects are in an early planning phase, the only light industrial, retail and warehousing zone under construction is located in Průhonice just out of the city on the southeastern boundary, on the D1 highway to Brno and Bratislava. The major industrial property development in the country (The Czech Technological Park) to enter the rental market is taking place in Brno. Rents for modern industrial and warehouse facilities are up to DEM 12/square metre/month.

New industrial premises used for production, distribution and storage operations are usually built for owner-occupation on greenfield sites in smaller settlements of South and West Bohemia. A remarkable development of a new Panasonic plant has been launched in industrial Park Bory Fields in Plzeň, the regional centre of West Bohemia. The lower dynamics of industrial property development in and around Prague can be explained by the increasing spatial division of labour within the regional geography of the Czech Republic, with the capital city concentrating command functions and advanced services and the other regions restructuring and developing their production base.

WARSAW

Warsaw presents a different case of commercial property development in comparison to Budapest and Prague. Although it is the city with the largest potential for development, actual property development has been slower than in the other two centres. There are two important contextual factors that contribute to the potential of property development in Warsaw. Firstly, Warsaw is the capital of a much larger country and thus has more growth potential. Secondly, as a consequence of the Second World War there is ample development space in central Warsaw. Two major sites include the land around the Palace of Culture (200,000 square metres) and Plac Teatralny (60,000 square metres). Thus, plenty of underdeveloped land, undersupplied markets and growing demand within the largest of the postcommunist countries of Central Europe characterise the city's development potential, which has yet to be realised.

The city was virtually destroyed during the Second World War and then rebuilt. In the context of the present analysis this means that there are both problems and opportunities. While the density of built up structures and the preservation of the historical heritage in Prague and Budapest constrain the possibilities for new developments, the largely postwar built environment of inner Warsaw with its numerous open spaces "is pregnant with possibilities" (Judge, 1995, p. 345). However, most land in central Warsaw was appropriated by the communist state and is still publicly owned. New structures were built under communism on this land. Because of this, monetary compensations to former owners are preferred to the return of land ownership. Disputes about restitutions and unresolved land ownership rights have up to now limited more intensive development and redevelopment in central parts of the city.

Offices. In Warsaw, there have not been as many new developments as in Budapest or Prague. Consequently there is a shortage of good-quality office space and rents are among the highest in Central Europe. A recognised central business core does not yet exist (Judge, 1995). Most of Warsaw's main office buildings are located in an area which is bordered by Jana Pawla II Avenue and Chalubiskiego Street to the west, the Royal Tract to the east, Plac Bankowy and Solidarności Avenue to the north and the Lazienkowska freeway to the south. In the future, office development is likely to be concentrated in the vicinity of the Palace of Culture, Central Railway Station, expanding along Jana Pawla II Avenue to the north and Jerozolimskie Avenue to the west. Fringe developments of office and industrial parks will be concentrated in the south-west near the airport and along the main exit roads.

The city's office stock, most of which was built before 1989 for owner-occupation purposes, was about 2.6–2.7 million square metres in 1995 (Couderq & Kubas, 1995; Jones Lang Wootton, 1995a). Other sources give the somewhat lower figure of 1.5 million square metres (Judge, 1995). The old office buildings are mostly occupied by the administration of both state and privatised enterprises and by central and local government officials. In many cases these offices are being sub-let to newly established domestic as well as foreign companies. The modern office space is only a small fraction of the total stock (it accounts for less than 200,000 square metres) and is mostly occupied by foreign companies and joint ventures.

At the beginning of the 1990s, when demand exceeded supply, hotel rooms and flats were often used as temporary office accommodation. New office developments have added premises of international quality standard. The modern office projects completed between 1990 and 1993 provided about 120,000 square metres of prime quality office

space. In 1994 no major office project was completed and only 5000 square metres of new office space was added consisting mainly of refurbishment. Four new projects and two high quality refurbishments added about 30,000 square metres in 1995 (Jones Lang Wootton, 1996a,b). Jones Lang Wootton (1996a) estimates the total stock of modern office space at 175,000 square metres by the end of 1995.

In 1996, a number of new projects were in construction or preparation. They included the 15,000 square metres FIM Tower; Austrian developer Bau Holding's 15,000 square metres Ilmet scheme; the 9000 square metres Atrium Business Centre developed by the Swedish group Skanska as the first phase of a future 70,000 square metres complex; the French contractor Bouygues' Plac Teatralny development, which will result in a total of 35,000 square metres of commercial space; Europlex, a multifunctional building comprising 15,000 square metres of offices, 5000 square metres of retail and a multiplex 7-screen cinema; 5000 square metres of prime office accommodation in Norway House; and many other schemes.

New premises under construction also include two business parks just outside the established city boundaries: Jerozolimskie Business Park and Ochota Office Park, both located about 3 kilometres west of the city centre in Ochota district. The first phases of both schemes comprised some 14,000 square metres and both were fully let prior to their completion in 1995 (DTZ, 1996). In the Motoków district of southern Warsaw, the first phase of the Globe Trade Centre, consisting of a refurbished 11,000 square metres building, came on the market in 1995. These suburban developments mirror the difficulties of development in the city centre, as well as a growing differentiation in demand, as some companies seek less exclusive, but efficient and less costly premises.

The yearly take-up rate for prime quality office space has boomed from about 10,000 square metres in 1989 to 100,000–120,000 square metres in 1994 (Couderq & Kubas, 1995). Jones Lang Wootton (1995a) estimates the annual demand in 1995 as high as 200,000 square metres. The vacancy rate is very low and the long-term demand is not being satisfied. Large numbers of companies are now in low quality offices and will want to upgrade their accommodation in terms of both quality and quantity of office space. Hodges (1995) reports that the average size of office enquiry at Jones Lang Wootton Warsaw was 1200 square metres, only marginally lower than in Vienna and significantly higher than in Budapest and Prague. The under-supply of modern offices has encouraged build-to-suit office projects and large-scale pre-letting agreements. Rents for prime office space in central Warsaw are among the highest in Europe. Rent is usually indexed to hard currency equivalents, particularly to USD. Rental rates for top quality office space in downtown locations have fallen from 1992 levels to USD 45–50/square metre/month. Lower quality office space in central Warsaw and modern offices outside the centre are leased for USD 25–35/square metre/month. There are virtually no vacancies of high quality modern office space.

The most active developers to date have been foreign, namely Austrian, French, Swedish, Italian and American companies. The major problem areas of property development include "lack of capital and scarcity of financing, inadequate utilities, significant red tape for planning approvals and an overburdened administrative system" (Jones Lang Wootton, 1996c). Another obstacle for real estate development in Warsaw is unresolved land ownership rights in the central parts of the city. Property development financing is perceived as the main constraint on property development, as there is a severe scarcity of equity capital, and credit financing with high nominal rates creates many liquidity problems for potential borrowers (Belniak, 1995). The financing of

development projects is drawn mainly from the developers' own resources (as in the case of Bau Holding of Austria or Skanska of Sweden), or from international credit institutions such as the US based International Finance Corporation or the European Bank for Reconstruction and Development and foreign, especially Austrian, banks. Polish banks and insurance companies enter the market to acquire real estate only for their own occupation.

The role of institutional property investors has been limited as the Warsaw property market is still perceived as unstable and involving high risk. There are no special obstacles for foreign investors. Foreign subjects are allowed to own or lease real estate. However, in the case of ownership, prior approval from the Ministry of Internal Affairs is required (Belniak, 1995). According to Couderq & Kubas (1995), yields accepted by investors in Warsaw have fallen from 12–14% at the beginning of 1993 to around 10% in 1995. However, recent reports of Jones Lang Wootton (1996a,b) estimate prime yields to be in the range of 12–15%, that is, higher than in Budapest and Prague.

Retail. The retail sector is as yet underdeveloped. By the end of the 1980s Poland had less retail space per head of population than the Czech Republic, Hungary and even the former USSR. Retail space was dispersed in a large number of very small retail units. An informal sector developed to fill the gap created by the general scarcity of goods provided by state-owned retail operations. At present there is large potential for dynamic development of retail businesses and new projects that will provide retail space.

Warsaw's prime retail zones for small retailers are situated in the central business district along Marszałkowska Street, Jana Pawła II Avenue, Jerozolimskie Avenue and the Royal Tract between the Old Town and Plac Trzech Krzyży. The more favoured locations for middle to upper range goods are Nowy Świat and Chmielna. Outside the central district, the most desirable retail locations are found along parts of Puławska to the south and Targowa on the east bank of the River Vistula. District shopping facilities are of vital importance for the local population. They usually consist of one or two medium-sized food outlets (around 600–800 square metres) and a collection of additional small shops selling other items. For large retailers, the main areas for development are the exit roads from Warsaw. The out-of-town sector has seen the most activity, fuelled especially by foreign firms.

City centre retail outlets are usually small with less than 50 square metres selling space. Most retail space is located in buildings owned by local governments and housing co-operatives. Local authorities offer retail space for lease and most retail outlets are currently used by private subjects. While in 1988 only 13% of shops were in private sector use, the figure for 1993 was around 80% (Anisfeld – Hudson quoted in Judge, 1995). Newly developed schemes are owned and used by the private sector. Premises are usually leased for 1–3-year periods (Sedek – Dobrowolski, 1995).

The domestic retail sector has been expanding quickly. Most noticeably, underground passages in the downtown area have been subject to intensive redevelopment by small private investors. The investors also began to repair and modernise existing stores. This affected especially shops along Nowy Świat, Marszałkowska Street and Jerozolimskie Avenue. There are also the first shopping malls being developed in the Polish capital: Bogusz Centre and Panorama.

International chains such as Benetton, Christian Dior, Chanel and Levi's, as well as the major fast food chains such as Pizza Hut, McDonald's and Burger King have opened outlets in the city. Furthermore, large international retailers have now estab-

lished their operations in Warsaw: they include supermarket chains such as Billa (Austria), Globi (GIB Group from Benelux), Hit (German Dohle Handel Gruppe), Ikea (Swedish furniture retailer), Makro Cash and Carry (SHV Holding from the Netherlands) and Rema 1000 (Norway). There is a strong demand for such premises, as several of Warsaw's districts lack shopping centres.

Examples of new developments completed during the past five years include Panorama, a 7100 square metres complex comprising small boutiques and restaurants situated on the route out to the suburbs and completed in 1993, the Ikea furniture superstore of 6900 square metres that opened in 1993 and the Janki Retail Centre developed next to Ikea store at a location 15 kilometres from the downtown area just outside the city administrative region. The Janki Retail Centre opened in 1995 and comprises a total of 31,000 square metres, whereas Ikea occupies 13,500 square metres and the rest is leased to tenants such as Office Depot, Carpet World or Vision Express. Supermarket operators, such as Le Clerc, Auchan, Casino and the DIY chain Castorama constructed "stand alone" units in highly populated suburbs (DTZ, 1996).

In 1996, a number of new projects were under construction, such as the ETC Shopping Centre and the LIM Galeria in the Marriott/LIM building. However, the retail market continues to be constrained by the lack of available high quality retail space. A large amount of land in good locations gathered as land reserves by housing co-operatives during the 1970s and 1980s is now available for future retail developments. In 1995, the first line of the Warsaw metro linking the central district towards southeast suburbs was opened and the city authorities are planning several retail developments around the metro stations.

Rental rates strongly depend on location and type of lessor. In downtown Warsaw, rents range from between USD 10 and 30/square metre/month for municipal premises to between USD 40 and 60/square metre/month for privately owned space. Top rental rates in new developments in prestigious locations are around USD 70–85/square metre/month.

Industry. Warsaw has a broad industrial base, traditionally in the electronic and mechanical industries and recently in the growing food processing and chemical industries. Rapid growth of foreign investments in the Polish economy could indicate potential demand for industrial real estate. However, the restructuring of the industrial sector has had little impact on the property market (DTZ, 1996).

Much of the industrial premises have been in the hands of state-owned manufacturing enterprises. However, the ongoing privatisation process has resulted in the lease and sale of many storage and industrial buildings to private owners. These old premises are often outdated, unsuitable and in poor condition. Demand for new industrial space is very strong, as an increasing number of industrial companies set up in Warsaw. However, there has been insignificant development in the industrial sector to date. Due to the shortage of supply, companies requiring large-scale modern space often construct or refurbish facilities on their own initiative.

Rental rates vary between USD 5 and 15/square metre/month depending on the location and physical characteristics of the premises. The buildings in greatest demand are located within a 10 km radius of the Warsaw Okęcie Airport. The most popular areas for new industrial and warehouse development are in Ochota near the airport, at the Katowice-Kraków motorway junctions in south Warsaw, and at Raszyn and Janki.

In 1994, development began on the first industrial and business park projects. In the Warsaw Distribution Centre, the first building comprising 5400 square metres is opera-

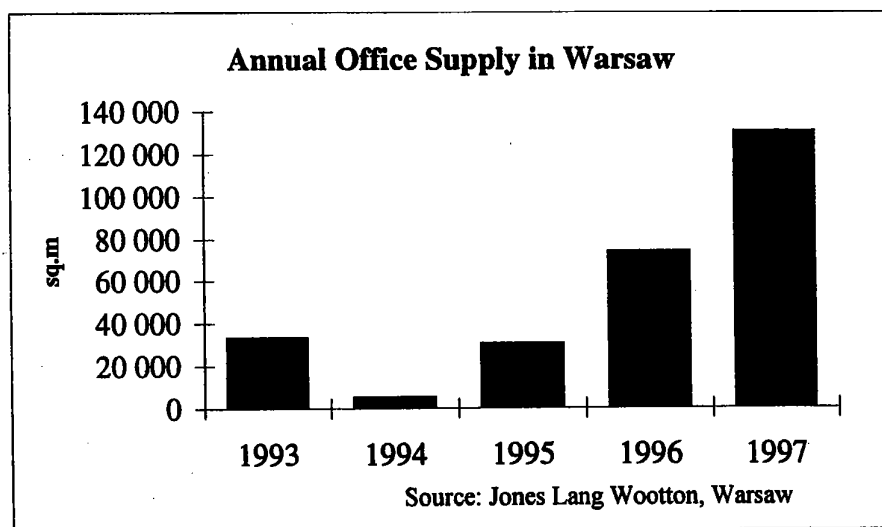
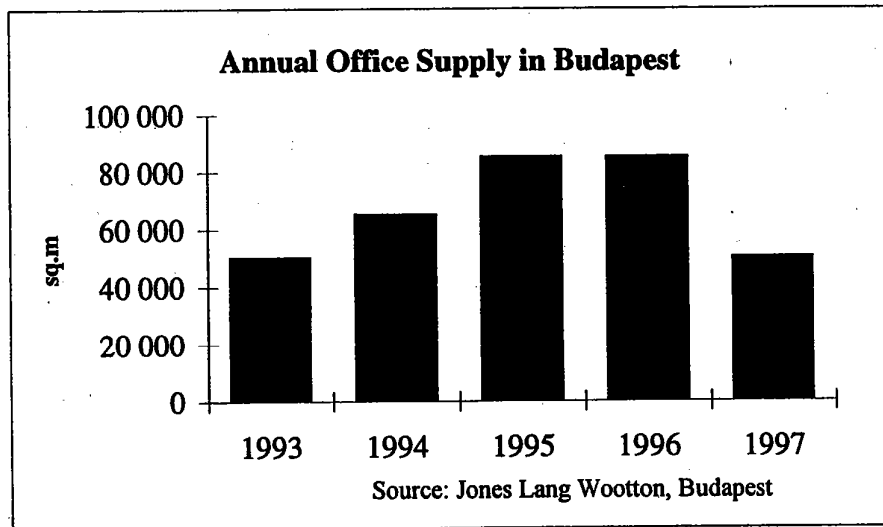
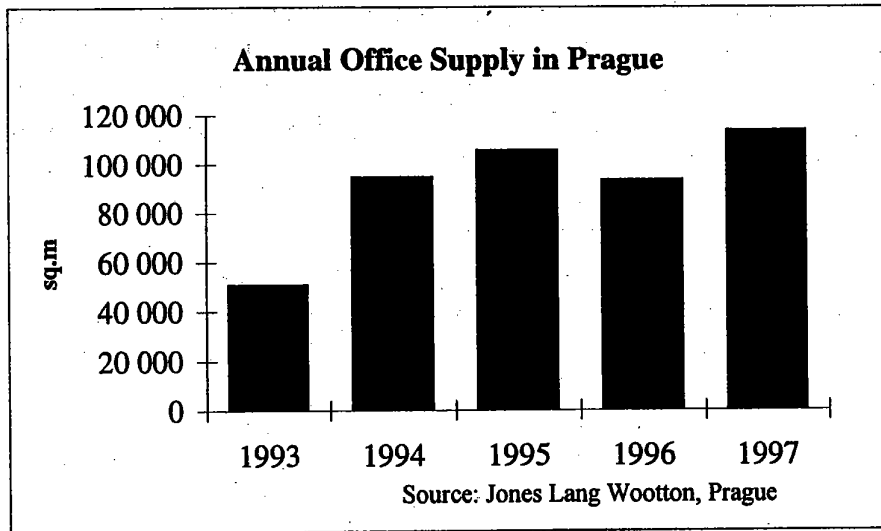


Figure 6.1. Annual office supply in Prague, Budapest and Warsaw

tional and fully let. The project will offer 60,000 square metres of office and warehouse space in ten buildings when completed. Another project is the Warsaw Industrial Centre that offers a total of 36,000 square metres of warehouse, light industrial, office and showroom space in four buildings. The first two buildings are already in use by international companies such as Whirlpool, Johnson and Johnson, and TDK. This modern industrial space was let at rent of USD 12/square metre/month.

CONCLUSIONS

The development of commercial property markets in Budapest, Prague and Warsaw brought a more economically effective utilisation of urban space in central city areas. The process of commercialisation has been accomplished by several mechanisms. In the early 1990s, existing office and retail premises were redistributed among new users and owners. The demand for new office and retail space derived from newly established domestic private companies and small entrepreneurs, and from foreign companies expanding their operation to Central European states, stimulated development of new commercial centres, as well as refurbishment of existing buildings. To date, several projects have been constructed and they have caused considerable changes in the physical appearance and functional use of central, inner, as well as outer city areas.

City centres attracted most of the attention of developers seeking good locations for businesses. New office construction has been highly concentrated in the Prague and Budapest city centres. New developments brought a positive change to the central areas, in the form of physical improvement and economic revitalisation. However, the high concentration of new commercial development also presents problems. The conflict between the demands of cultural heritage (historic buildings) and the new requirements of commercial development is raising the awareness of politicians as well as the general public in Prague. Severe problems may soon be caused by increasing individual car traffic into the business centres. Pedestrianised zones are being abolished (as in the case of Myslbek development in Prague). Furthermore large parking places are built under commercial centres with the result that more cars are brought into the narrow historical streets of mediaeval city in Prague and into the 19th century core of Budapest.

The possibilities for further development in central city areas of Budapest and Prague are nearly exhausted and new construction is moving to inner city commercial subcentres. There is also increasing interest in outer city areas, where light industrial, warehousing, distributional and high turnover retail facilities are being planned and constructed. The decentralisation of commercial developments is the major trend that will have a strong impact on the urban structure in the coming years. The situation in Warsaw is somewhat different. On the one hand, the city has huge resources of undeveloped land in central locations that offers a large potential for new construction; on the other hand, problems of property ownership rights in the central locations have not yet been fully resolved (all the urban land located within Warsaw's prewar borders was nationalised). Consequently many new developments in Warsaw have taken advantage of land acquisitions from private owners of farmland in outer city districts. An example of this is the development along Jerozolimskie Avenue (Bartoszewicz, 1995).

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