

7 Office development and post-communist city formation: The case of Prague

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7.1 Introduction

This chapter discusses office development in Prague as a major force reshaping the urban morphology of the Czech capital since the end of the Communist period. The focus is placed on newly built and high quality refurbished office space, with a particular attention given to stages in the development of office location patterns. The discussion places office development within the larger context of urban spatial restructuring in post-communist cities in an attempt to advance our broader understanding about urban form and the factors impacting its stability and transformation.

In Prague, as well as in other major Central and Eastern European cities such as Budapest, Moscow, or Warsaw, the economic and social restructuring that followed the arduous institutional transformations during the 1990s, has triggered a dynamic reorganization of the urban landscape. In these capital cities, serving not only as government hubs but also as key centers of economic activities and gateways to the global economy, commercial property development has played a major role in the process of spatial reorganization.

Although commercial property development accounts for a significant share of construction activities in large cities (Tasan-Kok 2004, p. 29), it is often neglected in discussions of urban restructuring (Hailä, 1996). Particularly striking is the lack of literature on the subject related to major global centers (Sassen, 1991), intensely globalizing cities (Marcuse and van Kempen, 2000), and cities within the various ranks of the global urban hierarchy (Taylor, 2000). These cities, which perform key command and control functions within the international economy, have concentrated large labor pools employed in the sectors of advanced services, demanding substantial quantities of high quality modern office space. Due to the large volume of capital flowing in and circulating within these economic sectors, the demand for high class office space is quickly mirrored by the construction of new commercial real estate and, consequently, in the reorganization of urban space impacted by such development.

The situation in the post-communist cities deserves special attention as commercial property development there has become one of the most powerful agents of

urban form transformation (Sýkora, 1998). The growth in the number of firms seeking office space started at the very beginning of the 1990s. Office construction, which reflected this new demand, became the first segment of the property market that showed dynamic positive growth, thus gradually beginning to reshape the major metropolitan centers in Central and Eastern Europe. The establishment of the business services sectors set in place the necessary infrastructure for the operation of the local market economy and its integration into the international markets.¹ The demand for high quality office space has been sustained also by the relocation to the region of corporate headquarters from the telecommunication, trade, and production sectors.² Recently, the increased presence of IT and high-tech firms in the region has generated further demand for high quality office space. The internal growth of companies that entered local markets earlier and recent arrivals by representatives of new economic sectors have resulted in increasing complexity of the office demand, significantly reshaping its nature. This has been reflected in differing rounds of investments and supply of office space.

7.2 Office development in Prague since 1993³

This section provides an interpretation of the office market development in Prague since the beginning of the transition period. The main organizational principle employs the identification of several distinct phases in the evolution of the market after 1989. These phases reflect the changing nature of demand, possibilities on the supply side, and an increasing diversity of the local property markets. The discussion is primarily focused on how the location pattern of new office development in Prague has changed in the last 15 years and on the conditions that have exerted the strongest impact on the distribution of office space in the city.

7.2.1 Scarcities in emerging markets, 1990–1992

In the beginning of the 1990s, Prague's economy was characterized by a rapidly growing number of private firms including foreign and international companies expanding into the emerging CEE markets (Table 7.1). Positive expectations, both domestically and abroad, followed quick political changes and the start of radical economic reform. The emerging markets in the region drew international investors not only as places for expanding trade, but also as a chance to extend production to new geographic areas and gain access to assets under favorable conditions through the massive privatization of resources. Part of the infrastructure needed to service those investors' interests in Prague quickly emerged from indigenous sources. However, many segments of the business services were supplied by foreign establishments that settled in Prague to serve the expansion of other foreign firms in the region. This growth in professional services (Figure 7.1) generated a great demand for office space.

Table 7.1 Share of business companies in foreign and international ownership registered in Prague, 1990–1996

Year	Total	Foreign ownership	Share	International ownership	Share
1990	993	59	5.9%	155	15.6%
1991	7,396	1,162	15.7%	1,492	20.2%
1992	14,169	2,239	15.8%	2,486	17.5%
1993	22,021	3,418	15.5%	3,719	16.9%
1994	28,525	4,280	15.0%	4,641	16.3%
1995	34,618	5,207	15.1%	5,555	16.1%
1996	38,957	6,091	15.6%	6,150	15.8%

Source: Sýkora 2001, Data from Business Register of the Czech Republic.

Note: Business companies include limited liability companies, joint-stock companies, commercial partnerships, and limited partnerships. Individual entrepreneurs, co-operatives, and state-owned enterprises are not included. Firms in international ownership are those jointly owned by foreign and domestic owners. Daughter firms established by foreign and international companies in the Czech Republic are registered as domestic; therefore the actual number and share of firms in ownership by foreign subjects is underestimated and this disparity is growing in time.

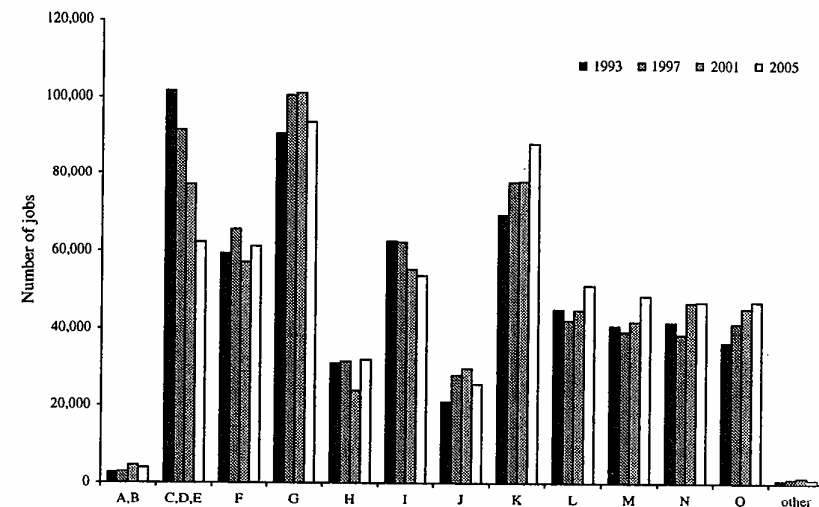


Fig. 7.1 Employment by economic sectors in Prague (NACE), 1993–2005

Source: Labor Market in the Czech Republic 1993–2005, Czech Statistical Office, 2006

Notes: A, B – agriculture, forestry, hunting, fishing; C, D, E – manufacturing, mining, electricity, gas and water supply; F – construction; G – trade, repair of motor vehicles, personal and households goods; H – hotels and restaurants; I – transport, storage, communication; J – financial intermediation; K – real estate, renting and business activities; L – public administration, defense, social security; M – education; N – health and social work; O – other community, social and personal services; other – other and not identified

In the early part of the 1990s, the capacity of existing premises to satisfy the growing demand for commercial real estate was fairly limited. The existing available commercial space was quickly redistributed among new tenants. Needless to say, these premises did not meet the office space standards common in Western countries. Landlords, developers, and investors reacted to the initial demand for commercial space by refurbishing old offices and converting some residential buildings to office uses. The first business centers made their appearance in Prague in 1991 and 1992. These were refurbished properties that provided common reception areas for a group of small offices. Many firms, comprised mainly of individuals as the first representatives of corporations that wanted to set foot in the local market, used them for the purposes of acquiring a “downtown address” in the capital city (Sýkora and Šimoníčková, 1996).

7.2.2

Pioneers and flagship projects, 1993–1996

The limited amount of commercial space on the market and its relatively low quality by Western standards stimulated the development of the first large new office projects. The International Business Center (IBC), constructed at the edge of Prague’s historical core, came on the market in the second half of 1993 offering 24,000 sq m of office space. Another large office building, the Prague City Center, completed in 1995, provided 17,500 sq m of offices in the heart of the capital. A number of other commercial projects were finished by 1996, increasing the supply of office space, most of which was concentrated in the city center. These buildings became flagship projects, pioneering the wave of new commercial property development in Prague.

The most influential project among these new commercial developments was the Myslbek building, which included 17,600 sq m of offices, 6,400 sq m of retail, and 1,200 sq m of space dedicated to other uses. The project (Figure 7.2) was developed as a highly publicized public private partnership intended to increase international awareness of Prague’s property market and attract the interest of prospective investors (interview with city councilor Filip Dvořák, April 27, 2001). A joint venture was formed between French Caisse Des Depots, which assured the project financing, and the City of Prague, which received 20 percent of the Myslbek shares in exchange for providing the land. After fulfilling its obligations, the City sold its share to the investor in 1999. Similar scheme was planned at that time for the Golden Angel project in Smíchov, but, instead of pursuing a public private partnership, the city government decided to sell its property to the Dutch investor ING Real Estate.

While the 1993–1996 period was marked by the first new large office projects, a substantially higher portion of office space was still supplied in refurbished buildings (Sýkora, 1998; 2001). Overall, the supply concentrated in the historical core, with only a few buildings constructed in out-of-center locations. Interestingly, projects financed by foreign companies at that time were located exclusively in the city center and its vicinity, while domestic developers ventured into some inner and outer city areas. This feature clearly showed the different perception of Prague’s



Fig. 7.2 Myslbek (Prague 1, New Town)

Source: Photo by I. Sýkorová

urban landscape by foreign and domestic actors in the initial years of transition. While foreign customers desired to be located in prestige central locations and developers associated out-of-center areas with higher risk, domestic actors, which were more familiar with the urban ecology of Prague, could squeeze in segments where they were not directly outbid by stronger foreign capital.

Development opportunities in Prague’s historical center were rather limited by the lack of available land for new construction and the strict regulations on urban form imposed by the City in view of preserving the rich historical character of the area. New buildings were required to correspond in volume and height to the existing building typology. Therefore, most of the new and refurbished office buildings were rather small, offering less than 5,000 sq m of office space. This supply also corresponded to the prevailing characteristics of the demand during the period, focused mostly on smaller office spaces of up to 500 sq m. In general, choice was restricted by limited supply in terms of both quality and location, which propelled rents of Class A office space to levels exceeding those in the Western markets (Figure 7.3).⁴

7.2.3

Increasing diversity, 1997–1999

The office market in Prague experienced substantial adjustments during the 1997–1999 period. While in the early 1990s most of the demand was derived

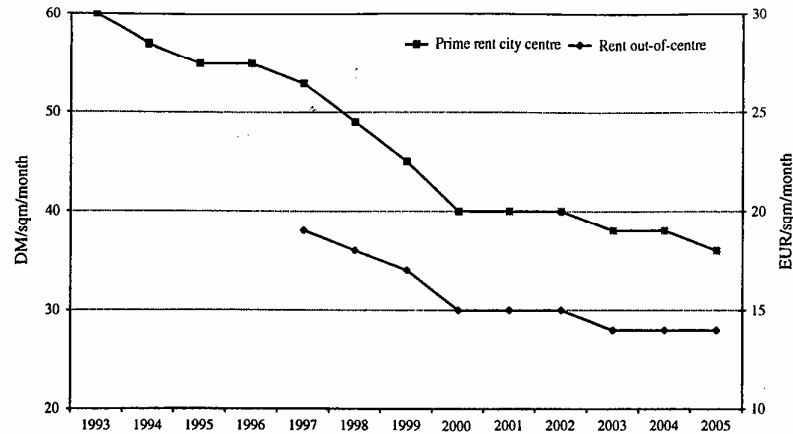


Fig. 7.3 Office rents in Prague, 1993–2005

Source: L. Sýkora

from the growing number of new companies, from the mid-1990s it was also fuelled by the expansion of existing firms. Although the average transactions did not exceed 1,000 sq m, there were a number of cases in which established and expanding companies demanded office space in the 1,000 to 10,000 sq m range. Furthermore, these customers required high quality accommodation and formulated specific locational preferences. After the initial years of the transition period, when customers' choices were narrowly limited by the existing supply, the growing differentiation of clients and their specific demands started to play an important role in Prague's commercial development market. Newer, larger, and more flexible office spaces were preferred, but the scarcity of potential sites for this type of office development in the city center, coupled with the high rents and worsening traffic congestion in the downtown area, made non-central locations much more appealing. Thus, new office projects began to appear in inner and outer city neighborhoods.

Towards the end of the 1990s, most possibilities for reconstruction in Prague's historical core became exhausted (Figure 7.4). In addition, the city government began to control more tightly the conversion of residential buildings to commercial use in an attempt to curb the depopulation of the city center. Facing increasing competition from new office developments in non-central locations, refurbished downtown properties lost their competitive edge on the market, their vacancies increased, and rents quickly declined. The stock of high-quality refurbished historical buildings in the urban core, however, retains its status as a market niche for the city's most prestigious clients.

The spatial pattern of new office development during this period showed a clear trend towards decentralization. In 1997, no major project was completed in the city

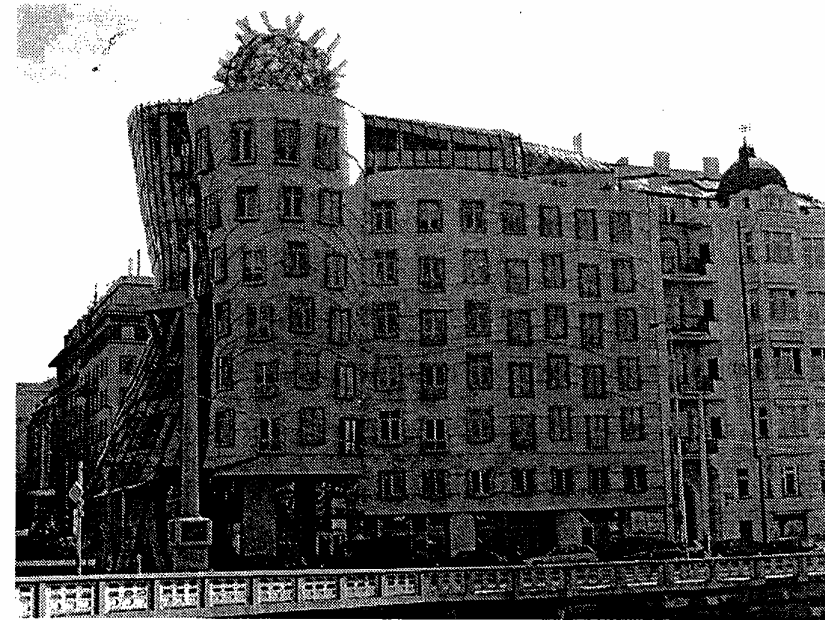


Fig. 7.4 Dancing House by V. Melunic and F. Gehry (Prague 1, New Town)

Source: Photo by I. Sýkorová

center while several office buildings, each offering 6,000 to 8,000 sq m of office space, opened their doors for business outside the boundaries of the two central districts – Prague 1 and Prague 2. This pattern continued in 1998 and 1999. The Czech developer Passerinvest completed the first two buildings (12,700 and 16,500 sq m of office space) of the business park BB Centrum on a site located a few kilometers southeast from the city center, adjacent to the North-South D1 highway and the underground stop Budějovická. The BB Centrum became a symbol of successful out-of-center office development⁵ and a prototype for decentralization and clustering of office uses in the city periphery.

Similarly, another out-of-center office cluster started to emerge in an arch around Nové Butovice, a housing estate located in the western part of Prague marked by the beginning of the D5 highway connecting Prague with Plzeň and Germany. The first few buildings in this area were completed in 1998 and 1999, each offering about 6,000 sq m of office space. Another four large out-of-center buildings were completed during 1998 and 1999 – Vinohradská Vinice (22,000 sq m) located in the eastern part of Prague, Hadovka Office Park (25,000 sq m) built in the western part of the inner city along the route to Ruzyně International Airport, and Rodop Airport Center (9,000 sq m) constructed right at the airport.

The fourth project, Palace Karlín (16,500 sq m), located in Karlín, an old inner city neighborhood adjacent to the historical core, started another major trend – the regeneration of old industrial districts through commercial redevelopment. The crucial characteristics that attracted investors' attention to this area were: the location suitable for the expansion of city center activities (supported in city planning documents); possibilities to gain property ownership in privatization of industrial premises; and the substantial amount of (re)developable land. The completion of the Palace Karlín project, along with the already existing Unilever and Mediatek buildings, created a strong nucleus around which other commercial redevelopment projects began to cluster in the following years.

The major project completed in the city center during this period was Millennium Plaza. It included 12,000 sq m of offices, additional retail space, and a Marriott hotel. Several other new office buildings were squeezed in the historical fabric of the city core in 1999, advancing the process of increased diversification of Prague's office market.

The year 1999 was characterized by a record supply of office space (Figure 7.11). Despite setting a record in take-up as well, the end of the year registered a 16 percent vacancy in the office market (Figure 7.5). This number reflected a trend observed during the second half of the 1990s of steady increases in vacancy rates. While a large part of the vacancies in 1997 and 1998 could be accounted for by just finished projects (largely pre-let but still seeking to add a few remaining tenants), the 16 percent vacancy in 1999 indicated that supply had exceeded demand, leading to a substantial decrease in rents (Figure 7.3). The decline in rents was also a result of the limited viability of lower-quality refurbishments,

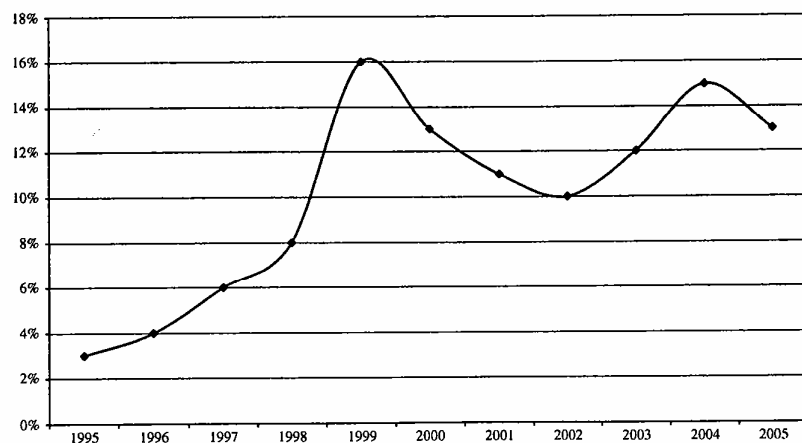


Fig. 7.5 Office vacancy rates in Prague, 1995–2005

Source: L. Sýkora

dating from the beginning of the 1990s, and the increasing competition from new out-of-center developments, which offered office space for 30–36 DM/sq m/month (Sýkorová and Sýkora, 2000).

Towards the end of the 1990s, both demand and supply on the office market was dominated by international actors. Development finance was provided mainly by foreign (mostly German and Austrian) banks through their local subsidiaries (Keivani et al., 2001). Commercial real estate professional services were supplied nearly exclusively by international firms for their mostly international customers. Prague's office market thus created a strongly internationalized niche within the Czech property markets. At the end of the 1990s, the investment commercial property markets started to emerge (McGreal et al., 2002) as the office sector witnessed the first investment transactions. Quickly, a number of institutional investors were drawn to the scene by the prospects of widening their investment opportunities in a market showing high yields and limited risks.

7.2.4

Stabilization and maturity, 2000–2002

The period between 2000 and 2002 was characterized by a stabilization of Prague's property market. The number of completions sharply declined in comparison with 1999 (Figure 7.11). Demand for office space was sustained on a relatively high level and vacancy rates decreased to 10 percent. Rents stabilized and even slightly increased for prime new office space in the city center. The approval of several major planning documents in the beginning of that period formed the main framework for the development process. The city's Master Plan was adopted in 1999, followed by the approval of Prague's Strategic Plan in 2000 (Sýkora, 2002; 2006) as the country was preparing frantically for its accession to the European Union. The events from September 11 in 2001 and the devastating floods that struck Prague during the summer of 2002 contributed to a general stagnation in the commercial property market. Some scheduled completions were postponed until 2003 and 2004. Furthermore, a boom in retail development (inner city shopping malls and suburban big box developments) and warehousing (logistic parks in suburban locations along major highways) diversified the commercial property market and redirected the attention from office development to other commercial property segments.

By the turn of the millennium, the Prague property market reached a level of maturity with sufficient quantity of diversified products, which attracted the attention of a large number of institutional investors. The supply driven market of the early 1990s and the demand driven market of the late 1990s were succeeded by the investment market of the early 2000s. The high initial yields exceeding 10 percent, typical of the immature markets with high perceived investment risks, declined during this period to 8.5 percent (Figure 7.7). Markets moved from "the initial phase of post-socialist reconstruction to higher level functions and activities associated with property investment" (McGreal et al., 2002: 221). The boom in investment transactions not only signaled the transition to mature office markets,

it provided developers and investors with returns on their business ventures that they could utilize in another investment round.

New office buildings were erected in already established office locations, strengthening the emerging spatial patterns. Prague's city center proliferated as a location of financial and consultant services, the inner city areas attracted a wide range of telecommunication, media, advertisement, and trade companies, while the outer city areas hosted the offices of IT and hi-tech companies, and the back offices of banks and insurance companies (ARTN, 2004). The offices of firms in the warehousing and distribution sectors were located in suburban areas in association with logistic parks.

A major development, which can not be omitted in examining Prague's urban change during the first years of this century, was the massive regeneration of former industrial sites in the inner city neighborhood of Smíchov. The area, identified in city planning documents for territorial expansion of the city center, offered large amounts of (re)developable land via privatization in a location well served by both underground transit and the inner city ring road. The Golden Angel building (13,000 sq m of office space), designed by Jean Nouvel above the Anděl (Angel) underground stop, became a symbol of Smíchov's revitalization (Figure 7.6; Temelová, 2007; 2005a; 2005b). While most public attention has been

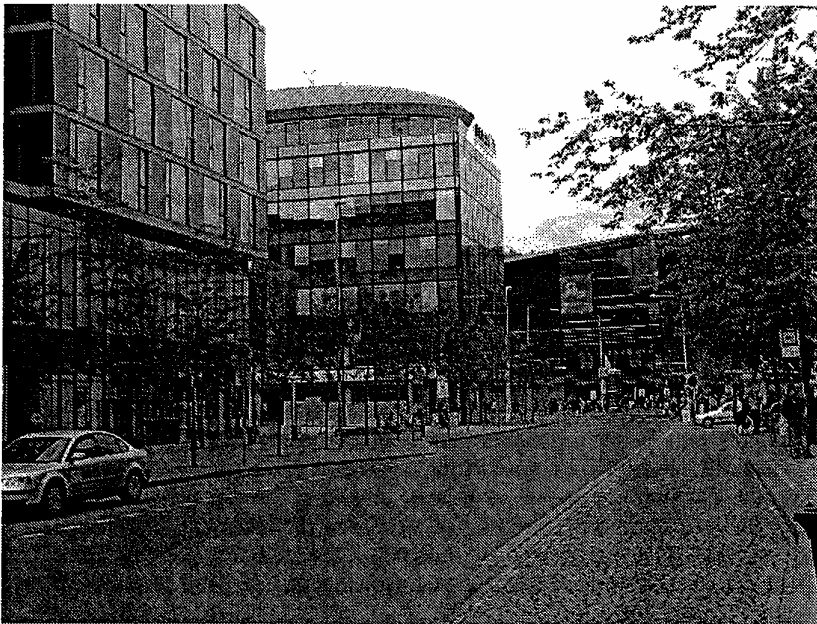


Fig. 7.6 Andel City (Prague 5, Smíchov)

Source: Photo by J. Temelová

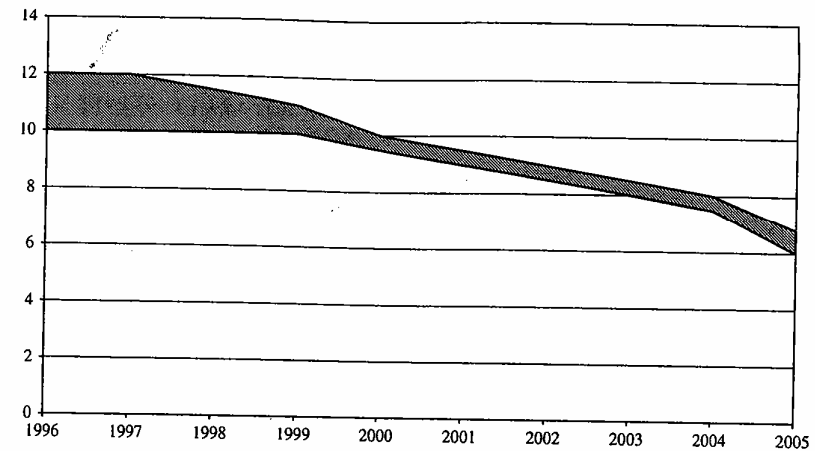


Fig. 7.7 Prague: office yields, 1993–2005

Source: L. Sýkora

attracted to the New Smíchov shopping and entertainment center, office development played a major role in the regeneration of the site. The first phase of Anděl City (a complex hosting 30,000 sq m of office space, a hotel, multiplex cinema, and housing) was completed in 2001. By 2006, the area contained over 85,000 sq m of offices, which combined with the new retail, entertainment, and hotel facilities have created a vibrant new city center.

7.2.5

New trends: suburban office parks and large-scale inner city (re)development, 2003-2006

Since 2003, the office market in Prague entered a period of sustained intensive development including the completion of several major projects with significant impacts on the process of spatial restructuring of the Czech capital. The two most notable trends, which emerged earlier but were fortified during this period, were defined by the proliferation of edge-of-city⁶ office parks, on one hand, and the realization of large-scale redevelopment projects in inner city areas, on the other.

Towards the end of 2006, when the major office cluster outside of the city core (the BB Center) was nearing completion, two large-scale office parks emerged further out towards the edge of the compact city. In the area of Nové Butovice, present on the map of Prague's office market since the mid-1990s, several new developments including the Avenir Business Park, the Nové Butovice Office Park, the mixed-use Galerie Nové Butovice, and some isolated office buildings added over 60,000 sq m to the area's total stock of about 100,000 sq m of modern office space. The most intense provision of office space, however, occurred in the

southeastern part of Prague, along highway D1 extending from the edge of South Town (Prague's largest housing estate) towards the city of Brno. With nine of its buildings already completed, this development, called The Park, provides 135,000 sq m of campus-style office space with flexible floor plans designed for the needs of its hi-tech tenants including the brand names of IBM, DELL, SONY, SUN Microsystems, Accenture, and DHL (Figure 7.8). The Park has become a symbol of the nation's twenty-first century business scene, attracting a growing number of R&D and customer support centers of multinational companies such as Panasonic, Honeywell, Motorola, and Mercedes-Benz.

The overwhelming majority of office developments during the 1990s were individual office buildings, later including some mixed-use development projects featuring retail, entertainment, and hotel functions. Typically, these projects were incorporated in the fabric of existing neighborhoods. Unlike them, the BB Centrum, The Park, and the projects in the Nové Butovice area are large-scale development schemes, which add new elements to the existing urban fabric without reformulating its character.

At the beginning of the new millennium, the urban structure of Prague has begun to get remolded also by large-scale redevelopment projects of inner city



Fig. 7.8 The Park (Prague 4, Chodov)

Source: Photo by L. Sýkora

areas. Aided by the recent opening of a new segment on the inner city ring road, the massive regeneration of the Anděl area in Smíchov is continuing with the addition of new offices, hotels, and residential buildings. Another location that has attracted a lot of attention is Pankrác, an inner city area marked by a cluster of high-rises constructed during Communist times. Pankrác's combination of proximity to the city center, high accessibility (conveniently located by a highway and several underground routes), and availability of developable land has made it a hot spot for development initiatives envisioning the future of the area as a twin business center to Prague's urban core. The offices in a proposed skyscraper complex designed by Richard Meier would offer superb views of the historical district. Towering over it from a commanding position, reminiscent of the presence of Prague's Castle (the seat of the Czech presidency) on the other bank of the Vltava River, the new business center is bound to articulate a metaphorical urban image juxtaposing history and future, international capital and local politics.

Not surprisingly, Pankrác's (re)development project has become a subject of significant public opposition. The site, approved in Prague's Master Plan from 1999 as a destination for city center expansion, was designated by city authorities as a prominent business growth node. The area has developed as a gravitational center for numerous existing and proposed clustered and isolated office buildings. Besides adding more office towers, the project, commonly referred to as "The City," calls for a significant amount of retail hosted in a large shopping gallery. This development concept has received the strong support of both the borough and the municipal governments. Major public investments have been dedicated to improve access capacity from the site to the D1 highway. The massive redevelopment plans, threatening to increase traffic congestion in an already overheated area, have provoked a strong reaction from the neighborhood. The local residents have consistently stated their disagreement with the project's content and design, demanding a reduction in its scale aimed to mitigate its negative impacts on the urban environment. The plan is currently awaiting a resolution by UNESCO which should assess the project's impact on the character of Prague's urban core designated by the organization as a world heritage site.

The waterfronts of the Vltava River located northeast of the city centre have also become a subject of significant large-scale redevelopment projects in the last few years. The River City Prague project in Karlín has already supplied two large office buildings (the Danube and the Nil House), with more office, retail, and hotel space underway. The site for this development is a brownfield area locked between the Vltava River and the neighborhood of Karlín. The project intends to connect the existing community with the riverfront, thus, spurring further neighborhood revitalization and gentrification. Just across the Vltava River, the port regeneration in Holešovice is another major redevelopment project initiated with the completion of the Light House office towers in 2004. The redevelopment plan contains a substantial share of office and retail space, yet the major emphasis here is on housing. Construction of a new luxurious housing estate on the riverbank, the Prague Marina, started in 2006. Similar projects are also planned for the port area

in Smíchov, but, as the implementation of this development requires changes in the city master plan, construction activities are not expected to commence soon.

Last, but certainly not least, a significant recent trend that has affected Prague's office market and the city's spatial transformation has been initiated by the relocation of back offices from Prague to cities and towns in the surrounding region. Erste Bank, formerly Česká spořitelna (Czech Saving Bank) has already moved its back offices to the mid-sized towns of Kladno, Kutná Hora, Píbram, and Beroun, all located in the region of Prague. There are signs that other companies are ready to follow suit. Furthermore, all three mobile phone operators established their call centers in the medium and small size towns of Hradec Králové, Chrudim, and Kolín. This regional decentralization can be seen as the first sign of office sprawl leading to the formation of what is referred to by Lang as the edgeless city (Lang, 2003).

Despite these major developments in the office market, office rents in Prague have not changed significantly during this period. Prime office rents in the city center remained in the range of 17 to 19 EUR per square meter per month, while new out-of-town premises, such as The Park, offered rental levels below 15 EUR. The increased supply of high quality office premises achieved a level of maturity for the local property markets, which combined with the relatively high yields supported the growing interest by institutional investors. Between 2004 and 2006, the volume of annual investment transactions more than tripled in comparison with the preceding period. This was reflected in a decline of acceptable yields to the level of 6 to 6.5 percent in 2006 (Figure 7.7).

Periods in the development of the office market in Prague 1990–2006

I. Market of scarcity, 1990–1992

- government reforms aimed at privatization, liberalization of prices, and rent deregulation
- rapidly increasing demand for office space from foreign firms expanding to CEE and some domestic firms, especially in the financial sector
- redistribution of scarce existing office space and first low-quality refurbishments
- very high rent levels reflecting disparity between high demand and limited supply

II. Supply-driven market, 1993–1996

- redistribution of ownership rights through privatization and following re-sales between private actors
- continuing high demand exceeding supply
- first newly constructed high-standard office buildings
- prevailing refurbishment over newly constructed buildings
- concentration of development in city center locations

- lease of new office space, mostly by foreign firms
- prime office rents around 55 DM /sq m/month
- extremely low vacancy rates
- non-existent investment market

III. Demand-driven market, 1997–1999

- supply meeting demand in the first half of the period and oversupply in the second half of the period with vacancy rate rapidly increasing to about 16 percent at the end of 1999
- growing role of newly constructed properties, diminishing role of refurbishments
- decreasing rents, especially for central city properties and refurbished office buildings, prime rents reaching 45 DM /sq m/month at the end of the period
- decentralization of new office construction to out-of-center locations with the development of new out-of-center office districts (such as in Nové Butovice)
- increasing demand for lease of larger office premises, more common are leases over 1,000 sq m, leases of whole buildings by a single company
- first investment transactions

IV. Investors' market, 2000–2002

- local development and land use regulatory environment stabilized with approval of strategic and master plans
- higher level of market maturity reflected in rapid growth in investment transactions and declining yields
- declining supply due to less favorable international markets, local oversupply in previous period, and flooding; vacancy declined and rents stabilized around 20 EUR /sq m/month
- supply in already established areas, large area regeneration of inner city brownfield area in Smíchov

V. New opportunities market, 2003–2006

- new trends shaping Prague's office market with radical impact on urban form: construction of edge-of-city office parks in the periphery and large-scale redevelopment projects in inner city areas
- increasing vacancy, decreasing rents and yields
- maturing market attracts high volume of investment transactions
- vacancy and rent declines affect especially low-quality central and inner city refurbishments from the first half of the 1990s, some of them change back to residential use
- increasing public awareness of the impact of large-scale projects on quality of life in residential neighborhoods

7.3 From centrality to decentralization: trends in the territorial distribution of office space

7.3.1 Methodology

The analysis of the spatial distribution of new office development in Prague provided below is based on a dataset compiled between 1993 and 2006.⁷ The dataset contains records on all newly build and fully refurbished buildings that are utilized predominantly for office uses or include substantial parts of office space. During the 1990s, office conversions usually took place in smaller buildings, often offering less than 2,000 sq m of low quality office space. For the purposes of this study, refurbished office buildings that do not meet international quality standards were excluded. As a result, the size of the office stock in Prague calculated in this analysis is significantly smaller than the total amount of available office space. Out of the 377,000 sq m of office space refurbished between 1992 and 2000, for instance, only 158,000 sq m met the established criteria. This approach provided results that differ from those presented in earlier publications by the author and in reports by real estate agencies on Prague's property market, both in terms of the volume of refurbished office space and its share of the total supply.

The analysis is based on data for 209 buildings completed between 1993 and 2006. The total area of office space collected for the individual buildings was aggregated on an annual basis using the smallest spatial units for which census data are available.⁸ These basic units were also aggregated in four major urban zones reflecting the broad patterns in the territorial distribution of office space (Figure 7.9). The *traditional city center* (Zone 1) is defined as the area comprised by the Old and New Town neighborhoods on the right bank of the Vltava River. Until 1989, most commercial functions in Prague were located here (Musil, 2005). With the establishment of the market economy and the boom in the advanced services sector, the commercial functions of the city center started to expand into the adjacent areas. This trend was endorsed by the Strategic Plan of Prague, which called for the city center expansion and the creation of several secondary business nodes within the inner city. The *expanded city center* (Zone 2) includes those inner city territories where office development represents the territorial extension of the traditional center. This zone includes the rest of the historic core on the left bank of the Vltava River and parts of the neighborhoods of Karlín, Smíchov, and Vinohrady. The rest of the *inner city* (Zone 3) presents a mosaic of heterogeneous areas comprised of densely build pre-World War II communities featuring both residential neighborhoods and old industrial zones. The abundance of brownfield sites in this zone presents a major potential for commercial property development, offering vast areas of underutilized land. The Strategic Plan of Prague identified several locations for the formation of secondary city centers within this zone, but, although some of them already attracted new office development, the majority

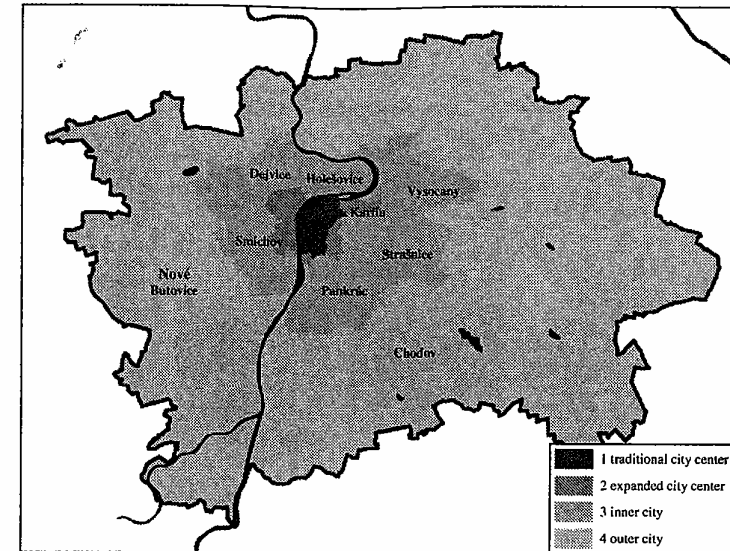


Fig. 7.9 Prague's urban zones

Source: L. Sýkora

of development projects have been realized in other locations. Finally, the fourth zone represents the *outer city* areas. This zone consists of large socialist housing estates (build during the 1960s, 1970s, and 1980s), post World War II industrial zones, and a wide assortment of undeveloped territories offering ample investment opportunities.

7.3.2 Volume, structure, and patterns of office location

By the end of 2006, there were 1.7 million square meters of newly constructed and high quality refurbished office space in Prague (Figure 7.10). New office space accounted for 1.35 million and refurbishments for 350,000 sq m of that total. If we take into account lower quality refurbishments from the 1990s, which amount to approximately 200,000 sq m, the total volume of office space developed and marketed in the period from 1993 to 2006 reaches nearly 2 million square meters.⁹ This figure, however, does not represent the total volume of office space in Prague as it does not take into account: 1) offices that existed prior to 1990 but have not been redeveloped; 2) offices that have been reconstructed by their owners but not placed on the market; 3) office buildings developed by companies to meet their own needs; and 4) a large number of smaller and lower class offices.

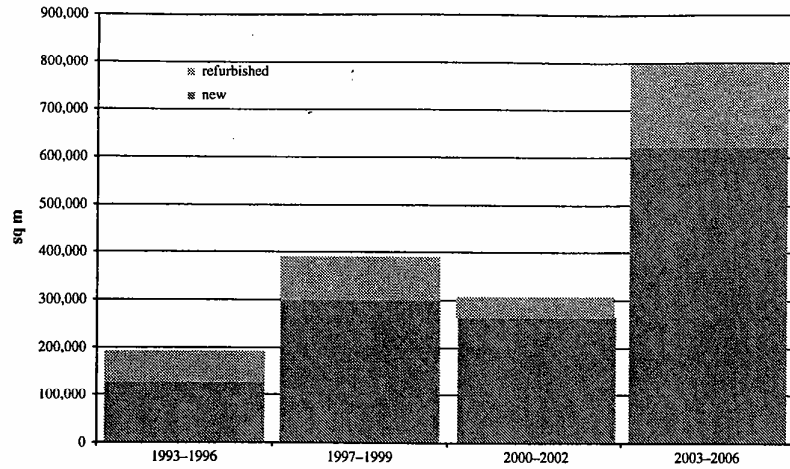


Fig. 7.10 Volume of Class A and B new and refurbished office space in Prague, 1993-2006

Source: L. Sýkora

The impact of office refurbishments on urban form is not as pronounced as the impact of new developments. Many refurbishments are conversions of buildings from other, often residential, uses. Thus, these adaptations change the pattern of the existing urban land uses. Many refurbishments also include horizontal as well as vertical extensions of existing buildings, transforming the urban environment through incremental appropriations of space. However, 170,000 sq m of the refurbished office space in Prague (nearly half of the total volume) comes from reconstructions of major office buildings that existed prior to 1990. The majority of them have been refurbished after 1997, with the largest volume of these conversions taking place between 2003 and 2006. Their renovation represents neither a change in urban morphology nor a transformation of the land use patterns. While such refurbishments do not add to the existing total stock of office space, they represent the process of revalorization of the built environment leading to an increase in the amount of high quality modern offices. The database, which includes such types of office developments, serves to monitor the extent of activity on the commercial property markets, as well as to identify the locations where capital flows into the built environment, indicating where we can expect future growth of companies utilizing high quality office space.

The spatial distribution of newly developed and refurbished offices changed remarkably between the mid-1990s and the mid-2000s (Figures 7.11 and 7.12). During the mid-1990s, nearly half of the new office space additions were located in the city center. The process of decentralization, which started in 1997 and gained significant momentum after 2003, brought the share of office completions in the outer city to nearly 30 percent of the total office space placed on the

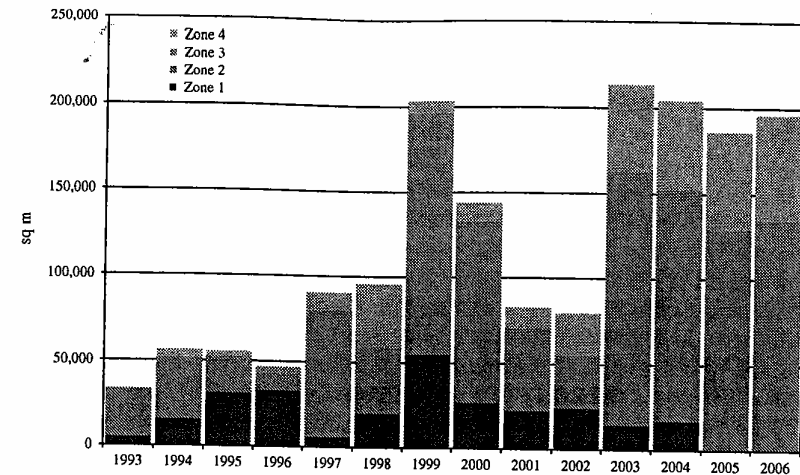


Fig. 7.11 Annual supply of Class A and B new and refurbished office space in Prague's urban zones, 1993-2006

Source: L. Sýkora

Note: Zone 1 – traditional commercial core, Zone 2 – expanded city centre, Zone 3 – inner city, Zone 4 – outer city.

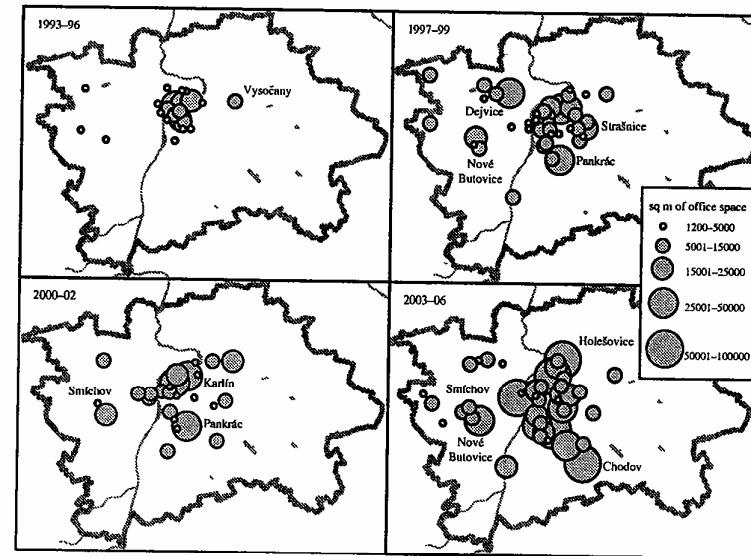


Fig. 7.12 The territorial distribution of new and refurbished office space in Prague, 1993-2006

Source: L. Sýkora

market during the 2003-2006 period. By 2006, the city center seemed to have exhausted most viable opportunities for further office growth. In sum, the four zones identified above – the business core, the expanded core, the inner city, and the outer city – accounted for 270, 495, 582, and 333 thousand square meters of office space developed during the 1993-2006 period. Taking into account the area of the expanded city center, the 765,000 sq m of office space contained in the central city area still show its key role in the distribution of office space within Prague's territory. However, several newly developed business concentrations in the inner and the outer city indicate a strong trend of office space decentralization to secondary city centers and edge-of-city locations. This trend is likely to continue, yet, it is unlikely that any non-central office agglomeration could challenge the primacy of the expanded city core (zones 1 and 2).¹⁰ Therefore, it should be noted that the ongoing spatial decentralization of office development is taking place within the general framework of a strong intra-urban hierarchy.

The observed decentralization trend suggests that the urban spatial structure of Prague is being transformed from a monocentric to a polycentric model in which several office clusters have formed the core of emerging secondary city centers. This polycentricity, however, is characterized by a strong city center, which still anchors the majority of the existing office development.

7.4

Office development and urban change

7.4.1

Office development and settlement hierarchy

The geographic pattern of office space development reflects both the demand, determined by the current locational preferences of office space users, and the supply side, constrained by the historically developed urban structure and the role of the city in a wider division of tasks in a given territory (Sassen, 2002). One should also take into consideration the role of national and local governments in place promotion, which can exert a key influence on investors' locational choices.

In the context of Central and Eastern Europe, the question of inter-city location of office investments could be divided into two parts: the international level, reflecting locational patterns within the major CEE cities; and the national level, characterizing locational patterns within individual countries. Most of the demand for modern office space in the former communist countries in Central and Eastern Europe came from international firms operating in the sectors of advanced producer services, information technology, and telecommunications. These firms located their offices in the capital cities as these places became the major entry points for foreign companies expanding their operations into Central and Eastern Europe. The providers of advanced services needed to follow the Western investors so that they can assist their operations in the markets emerging beyond the former Iron Curtain. Eager to establish their presence, these companies set up their offices in

major capital cities of Eastern Europe, creating a wide network characterized by nodes of similar rank and the absence of a major supranational center in the CEE region. In their analysis of European cities in the global urban scene, Taylor and Derudder (2004) identified this zone as a distinctive territorial Eastern European arena,¹¹ which they called a "region of economic opportunity." During the 1990s, the cities within this arena created direct links to the major global centers, most notably London (Derudder et al., 2003).

The large capital cities of Central and Eastern European countries thus acquired the status of world cities as global service centers (Taylor, 2000; Derudder et al., 2003; GaWC research group). However, while the demand for office development in these CEE capitals shares similar roots, their office markets could differ significantly, mainly due to differences in the advancement of market reforms (Hirt and Kovachev, 2006; Vesselinov and Logan, 2005), the size of the country and its markets (Pichler-Milanović, 2005), specificities in institutional regulations (McGreal et al., 2002; Keivani et al., 2001), and the character of the urban environment.¹²

At the time when capital cities of the former Eastern Block attracted key command and control functions, other CEE cities struggled to receive at least some investments into their declining manufacturing base. Sharp regional disparities developed between the capital cities that concentrated advanced services and management functions and the other cities and regions whose success, if any, has been mostly related to investments in manufacturing and corresponding reindustrialization (Sýkora, 2006; Kiss, 2004). In the Czech Republic, new office development outside of Prague has been negligible. In Brno, the second largest Czech city with about one third of Prague's population, the volume on newly constructed office space amounts to only 85,000 sq m. Similar patterns of capital city dominance are exhibited in other Central and Eastern European countries (Hamilton and Carter, 2005), including Slovenia (Pak, 2004), Budapest (Tosics, 2005; Kovács, 1994), and Warsaw (Tasan-Kok, 2005; Weclawowicz, 2005). Non-capital cities have failed to register any significant office development that might challenge the leading position of their capitals (Kotus, 2006; Parysek and Mierzejewska, 2006; Steinführer, 2006).

The locational patterns of advanced services and new office development reflect the geography of economic globalization in Central and Eastern Europe with simultaneous concentration of command and control functions to a limited number of major cities, paralleled by the geographic dispersal of other economic activities. This pattern also suggests a need for adjustment of the original thesis advanced by Sassen (1991) regarding the role of major national capitals as important locations in the geography of the global economy. The experience from the post-communist transition in Central and Eastern Europe suggests that national contexts play crucial role in the organization of the global economy and namely in its level of penetration and expansion within the new post-communist territories. Hence, capital cities not only retained, but significantly strengthened their relative positions within the settlement and regional systems of the CEE countries.

7.4.2 Urban morphology and land use

The urban form and land use patterns in the post-communist cities of Central and Eastern Europe have been affected by a wide range of processes of urban change such as residential differentiation, suburbanization, retail expansion, gentrification, brownfield regeneration, etc. (Sailer-Fliege, 1999; Chapter 1, this volume). In this radical transformation of the physical structure of the city, office development played one of the most prominent roles. It started ahead of the other processes of urban spatial restructuring mentioned above, accounting for a large share of investments in the built environment, leading to radical transformations in land use patterns across urban space, from city centers to the outskirts, and, last but not least, reshaping the symbolic urban landscape emphasizing the presence of private and foreign capital.

During the 1990s, the demand for office space highlighted the confrontation between the new capitalist urban economy and the physical structure of the built environment inherited from communist times. By the turn of the century, the boom in the retail and warehousing sectors of the real estate market began to catch up with office development, while the growth in real incomes and the establishment of a mortgage financing system supported the recovery of the residential market. Today, office development is no longer the single major component of the post-communist city rebuilding process. However, since the new office buildings are occupied by the most active participants in the urban economy, with their physical structures dominating some of cities' most prominent locations, office development still exerts a great influence over the transformation of the urban fabric.

Office development has been instrumental component in the commercialization and expansion of the city center, the formation of a polynucleated metropolitan structure through the growth of secondary nodes, and the dispersal of urban functions to the suburban periphery.

During the 1990s, the concentration of company headquarters and producer services in central city locations (Tasan-Kok, 2005; Digsdale, 1999; Sýkora, 1999) contributed to the reconstitution, physical rehabilitation, and economic revitalization of the urban cores. Some existing buildings were enlarged, increasing the density of the built environment and the intensity of land uses. Empty lots were utilized for new construction, which brought further densification in the urban fabric. While in historic city cores of cities like Prague the new buildings had to reflect the general character of urban form, the center of Warsaw became a subject of massive redevelopment. The new office developments in the post-socialist downtowns brought physical regeneration, economic revitalization, and more efficient land utilization, but they also generated growth in passenger car traffic and conflicts with proponents of cultural heritage preservation (Hirt and Kovachev, 2006; Kutus, 2006; Pak 2004; Sýkora, 1999) (Figure 7.13).

Office development helped to revitalize former industrial sites in inner city locations by turning some of these abandoned or underutilized areas into vital commercial

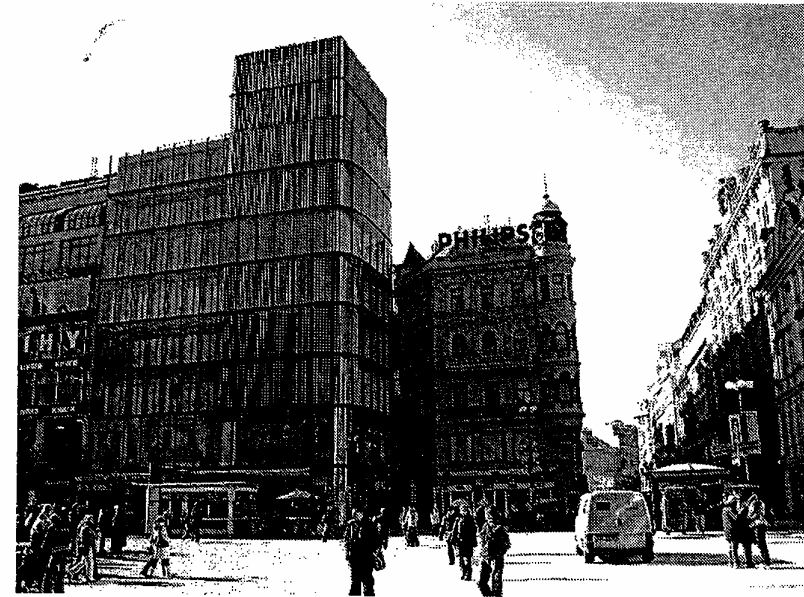


Fig. 7.13 Palace Euro (Prague 1, New Town)

Source: Photo by I. Sýkorová

centers. Such redevelopment projects, centered on office use, have been formed in Budapest along Váci Street, in Warsaw by the westward expansion of the city centre, and in Prague with the reconstruction of Smíchov, Karlín, and Holešovice¹³ (Figure 7.14). In the porous morphology of the former socialist cities, other underdeveloped areas were also acquired by investors for construction of offices and other commercial projects. Such developments concentrated in locations recognized by planning documents as new metropolitan nodes, although the preferences of investors and city planners did not always overlap in space (Maier, 2002) and actual development often revised the original visions of city authorities.

Greenfield development in suburban locations has been a defining characteristic of post-communist metropolitan development. In this process of urban deconcentration, non-residential developments, including office use, have had a stronger spatial impact on metropolitan restructuring than residential suburbanization (Sýkora and Ouředníček, 2007; Nuissl and Rink, 2003, 2005; Lisowski and Wilk, 2002; Chapter 5, this volume). With the exception of some office construction in industrial and warehousing districts, however, office decentralization has not yet entered the exurban realm. Large-scale office parks, such as The Park in Prague or Business Park Sofia, were developed at the edges of the compact city, utilizing the availability of relatively cheap land while hooking into the existing

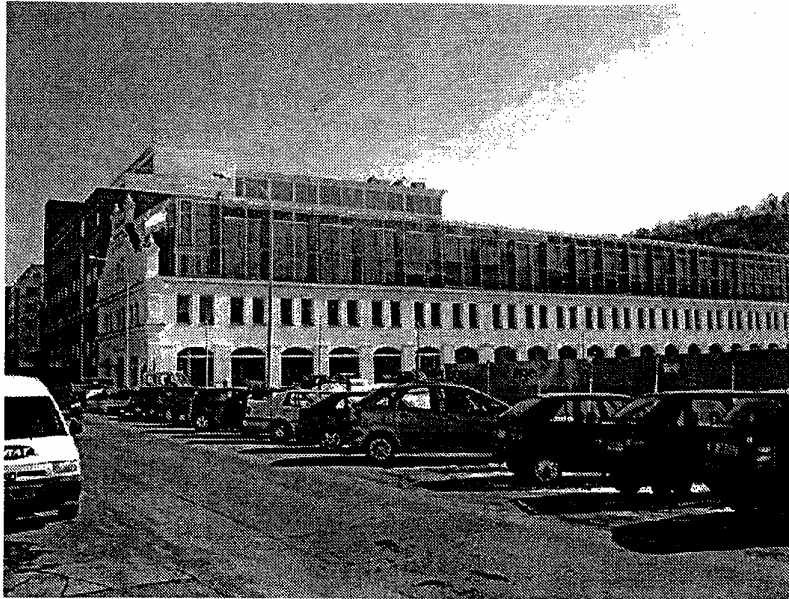


Fig. 7.14 Corso Karlín (Prague 8, Karlín)

Source: Photo by I. Sýkorová

city infrastructure and services. The question of whether further deconcentration of office uses into the exurban zone is likely to follow is still a subject for speculations (Lang, 2003). Recent growth of specialized services in metropolitan areas due to foreign investments has generated a new type of demand for office spaces that do not necessarily need to be centrally located. The ample quantities of cheap land in the suburbs, the eagerness of local authorities to attract investments, improvements in transport infrastructure, and the growing pool of highly qualified suburban residents will most likely stimulate the formation of suburban office parks in the not so distant future. Whether suburban growth will be concentrated in certain nodes or dispersed amorphously will depend mostly on the priorities of national and regional governments formulated in their spatial development strategies.

7.5 Conclusions

Office development since 1989 has significantly reshaped the character of post-communist Prague and other CEE capitals by inducing major adjustments in their urban structure necessitated by the demands of the newly introduced market

economy. Property privatization, the change in ownership patterns, and the availability of development sites (both within and outside of city boundaries) have played a decisive role on the supply side, while demand has been most strongly influenced by the sequence in the establishment and expansion of foreign companies on the Eastern European markets.

Office development in Prague has spurred the revitalization and regeneration of a number of urban areas, most notably the city center and several large derelict industrial sites. Indeed, major office projects served as catalysts of private-led redevelopment of entire city neighborhoods (Temelová, 2007). The dispersal of office and other non-residential uses throughout the urban territory has improved access to employment opportunities in many areas previously characterized as bedroom communities (Chapter 5, this volume). On the other hand, the revitalization led by private initiative and investments has been spatially selective, favoring some urban locations at the expense of others.

The growth induced by private capital has also had certain negative effects on the areas experiencing intense redevelopment due to over-commercialization and over-investment as demonstrated by the latest developments in Poznań city centre (Kotus, 2006). The architectural character of some of the recently completed or proposed projects has also become a point of public contention as the glossy modernism favored by international investors is often perceived as arrogant, aggressive, and disrespectful of the historically formed urban environments (Szirmai and Baráth, 2005). The demolition of the historic Špačkův dům, which provided room for the Prague City Center, is a telling example of the power of international capital to flex local development decisions in its favor. Other examples, however, such as the reduction of the proposed heights of the palace Euro at the Wenceslas Square and of the skyscrapers at Pankrác, have demonstrated that there is a growing recognition of the need for consensus among all stakeholders in the development process – the private capital pursuing profit maximization, the municipal authorities serving the public interests, and citizen groups defending the livability of their neighborhoods.

Office development has been a powerful agent of change in the process of transforming the urban fabric of Prague, and the structure of the post-socialist city in general. The experience accumulated since 1990 points to the need of well-defined urban policy and planning recognizing the structural impacts of office development as an opportunity to direct investments towards a more balanced and sustainable urban environment.

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Notes

- ¹ In some post-socialist cities certain sectors of advanced services have become, in fact, overrepresented in comparison with Western cities of similar size. Those are businesses associated with the process of privatization and firms that provide support to foreign companies in their expansion into local markets (Taylor, 2000)
- ² Most notable has been the impact of telecommunication and pharmaceutical firms expanding aggressively into local markets.
- ³ This section is based on my own knowledge accumulated through my studies of the city and its urban property markets since the early 1990s. The wider referential frame rests on my experience gathered through empirical research, discussions with various actors from the real estate sector, monitoring of property market reports of major real estate consultancy firms, and review of professional journals examining property development in the Czech Republic and Eastern Europe. Data on office rents, yields, and vacancies have been assembled over the years from a variety of sources reflecting the situation on Prague's office market in a given period.
- ⁴ During these years, rents were denominated in German Marks and prime office rents were at the level of DM 55/sqm/month.
- ⁵ By the end of 2006, BB Centrum provided 135,000 sq m of high quality office premises in 11 buildings. This pioneering work was recognized by the Association for Property Market Development, which in 2002 selected Radim Passer of Passerinvest as the first holder of the annual price for Outstanding Merits in Czech Property Market Development.
- ⁶ The term *edge-of-city* is employed to distinguish between developments in the outer parts or right outside of the compact city from leap-frog developments further out in the suburbs.
- ⁷ The compilation of the dataset has been a collaborative effort by the author and Ivana Šimoníčková - Sýkorová. The data has been used in previous publications that monitored the development of the commercial property market in the 1990s (Sýkora and Šimoníčková, 1994, 1996; Sýkora, 1998; Sýkora 1999; Sýkorová and Sýkora, 2000; Sýkora, 2001).
- ⁸ The 2001 Census divided Prague in 903 such spatial units (ZSJ základní sídelní jednotka – basic settlement unit).
- ⁹ This figure corresponds to the data presented by the Prague Research Forum (a consortium formed by major commercial property agencies, including CB Richard Ellis, Colliers, Cushman & Wakefield Healey & Baker, DTZ, Jones Lang LaSalle, to share information about property markets in Prague) and the Trend Reports of the Association for Property Markets Development (ARTN, 2002; 2004; 2006).
- ¹⁰ Currently, the largest cluster has less than 200,000 sq m of office space compared to the 765,000 sq m in the city core.
- ¹¹ It includes the cities of Budapest, Kiev, Moscow, Prague, Vienna, and Warsaw (Taylor and Derudder, 2004).
- ¹² Compare, for instance, historic preservation in Prague city center with development opportunities in central Warsaw.
- ¹³ This symbiosis between deindustrialization and tertiarization has been somewhat specific to capital cities (Kiss, 2004; Sýkora, 2006, Chapter 8, this volume). Postindustrial brownfields in cities that have not been as fortunate in attracting new investments still present more problems than development opportunities.

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