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# The Development of the Commercial Property Market and its Impact on Urban Development in the Context of Transition from a Command to a Market Economy: The Case of the Czech Republic and Prague<sup>1</sup>

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## INTRODUCTION

This paper describes the development of the commercial property market and outlines its impact on urban development in Prague, the capital of the Czech Republic. The Czech Republic is one of the Central and East European Countries experiencing substantial changes in its societal system. Since 1989, the country has been in a period of transition characterized by transformation from a totalitarian

to a democratic political regime and from a command to a market economy. The transition period has created a peculiar context in which property markets are being established and reestablished. The situation presents a unique case in history and offers us the opportunity to gain an insight into the establishment of new property markets.

In the Czech Republic, the property market was quickly established at the beginning of

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### Most important publications:

- Sýkora, L. (1993) "City in Transition: the Role of Rent Gaps in Prague's Revitalization". *Tijdschrift voor Economische en Sociale Geografie* 84 (4): 281-293.
- Sýkora, L. (1995) "Prague" in J. Beny, S. McGreal (eds) *European Cities, Planning Systems and Property Markets*. London: E & FN Spon, pp. 321-344.
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- Sýkora, L. and Šimoničková, I. (1994) "From Totalitarian Urban Managerialism to a Liberalized Real Estate Market: Prague's Transformations in the early 1990s" in: M. Barlow, P. Dostál, M. Hampl (eds) *The Development and Administration of Prague*. Amsterdam: Universiteit van Amsterdam, Instituut voor Sociale Geografie: 47-72.

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1. This result is part of the three year research project "The Development of the Real Estate Market in Prague and its Impact on Changes in the Internal Structure of the City" funded by research grant no. 171/95 from the Charles University Grant Agency.

transition. There were several important factors that influenced the establishment and development of the Czech property markets. First, these markets had existed in the country before the Communism. Therefore, it is fairer to say that property markets were re-established rather than newly created from scratch. The restitution (reprivatization) of formerly private property, the existing system of property registration and a tradition in basic real estate legislation were the major features aiding the rebuilding effort. Second, the smooth transition to a market economy created favourable conditions which facilitated the early growth of the domestic private sector and foreign actors were encouraged to set up operations in the Czech Republic. Growing demand for real estate generated by expanding private businesses has had a substantial impact on the development of property markets. Third, political stability and positive economic development were reflected in the favourable attitude shown by major international institutions toward the country (credit awarded by the IMF and the World Bank, membership in WTO, OECD, an associate membership treaty with the EU, a high rating from rating companies, etc.) and increased the security of local markets for foreign investors, fuelling the development of new commercial properties.

The first part of this paper is focused on the establishment of the commercial property market in the Czech Republic and Prague after the societal change in 1989. The main preconditions for the functioning of the property market were created by government directed transformation policies aimed at the general establishment of the market economy. The most important transformation policies with regard to the property market were privatization programmes, price liberalization and rent deregulation. Furthermore, changes in legal norms concerning real estate and the liberalization of foreign trade had a major impact on the operation of the property market. The paper continues with a description of the development and performance of the property market in the Czech Republic during the first half of the 1990s.

The next section examines the development of the commercial property market in the

city of Prague. Analysis is especially focused on the office market. The annual supply of new and renovated office buildings is examined in detail. Attention is especially given to the location behaviour of foreign firms in the office market. Developments in the retail market are discussed and a brief comment is devoted to the investment market.

The construction of new commercial buildings and the refurbishment of old ones have caused the most radical and visible changes in the physical and functional aspects of Prague's spatial urban structure during the first half of the 1990s. The geographical pattern of commercial property development in the city of Prague is examined. Location-based decisions realized in the first half of the 1990s are described and current trends are discussed. Furthermore, the relation between commercial property development and changes in other urban (particularly residential) functions are outlined. Finally, this paper describes contemporary urban planning priorities in relation to the Prague commercial property market.

## I. THE CONSTITUTION OF PROPERTY MARKETS IN THE CZECH REPUBLIC

Property markets were re-established in the Czech Republic in the early 1990s after more than forty years of Communist rule and a centrally planned system of resource distribution within society. Under Communism, private ownership of real estate was severely limited. A substantial part of private property was nationalized and the free use of that part still remaining in private hands was strictly regulated. A small amount of privately owned property (in the form of large enterprises) had already been nationalized by the state after the Second World War before the Communists acquired power in 1948. The Communists then continued this process during 1948-55 with the nationalization of agricultural and forest land and small enterprises and administrative buildings, followed by commercial and residential entities in 1955-59.

A clear dividing line existed between so-called personal and private property. Any person could have a single family house, including

land, as well as a second (weekend) house in his/her personal ownership. Real estate that was used only for the satisfaction of basic household or individual needs was considered to come under the category of personal ownership. However, in the case of ownership of an apartment house, for instance, where a number of flats were leased to other households or individuals, the property was considered to be private. The reason was that such property could be used as a means of exploitation and, consequently, the owner's power over its use was severely restricted by the state. Real estate designed to cater for commercial functions, such as office, retail or industrial space, was left entirely in the hands of the state.

There was virtually no existing real estate market in Czechoslovakia under Communism. Only real estate in personal ownership, such as single family houses, second houses and gardens, could be traded between private persons. Sale prices were regulated by the state through property valuations that reflected "brick and mortar" rather than the willingness of people to purchase. Consequently, a black market developed where the price actually paid for a property differed from the official valuation. As the black market price, which reflected demand and supply, was usually much higher than that set by official valuation, state income from property transfer tax was lower than if the real flow of money had been reflected. With regard to commercial property, such units could be traded between state organizations at prices set by official valuations. While the public sector could purchase private property, private individuals had limited opportunities for purchasing property from the state. In the case of land for single family housing construction or for cooperative housing projects, such land was usually allotted for these uses, but not sold to any direct owner.

### ***1.1. Transformation Policies and the Establishment of Property Markets***

The basic preconditions for the re-establishment of commercial property markets in the Czech Republic were created by the political and economic changes which began at the end of 1989. The first steps in the institutionaliza-

tion of the democratic political regime in the former Czechoslovakia were taken during the "Velvet Revolution" of November 1989. Economic reform aimed at the rapid introduction of market principles was initiated during 1990 and a comprehensive programme was adopted in January 1991. Since the dissolution of Czechoslovakia in January 1993, the government of the Czech Republic has continued with these reform efforts, which had for the most part been completed by the beginning of 1995.

The main pillars of the economic reform strategy were privatization policies and the liberalization of domestic and foreign trade. The privatization of state assets redistributed a substantial portion of existing real estate among new owners and thus gave a strong impetus for the development of the market economy in general and property markets in particular. The liberalization of prices and rents allowed the market to function in its narrow sense. Furthermore, changes in legislation on real estate property created the fundamental rules governing the operation of real estate markets. Finally, the liberalization of foreign trade opened up local property markets to foreign demand enabling foreign use of real estate as well as investment in property acquisition and development.

The first precondition for the re-establishment of property markets was **a change in the constitutional law putting all forms of ownership on the same legal footing**. Discrimination against private ownership was alleviated and a plurality of ownership forms was established. Such legislation also proclaimed and guaranteed basic property rights for all owners, regardless of whether the owner is a private individual, a legal entity or the state.

**Privatization policies** have been pursued through a strategy aimed at the rapid and wide distribution of existing assets. If measured by the growth of the private sector contribution to GDP, the privatization has been very successful. While at the beginning of the transition period the private sector accounted for only 4% of GDP, it accounted for about 70% by mid-1995 (EBRD 1995: 39). The main privatization programmes pursued by the central government included large-scale privatization, small-scale

privatization and property restitution. A number of local (municipal) governments also adopted privatization programmes through which municipal housing and other municipal properties were sold to private owners.

With regard to the development of real estate markets, the most influential privatization programme was property **restitution**. Under the restitution programme, about 30,000 industrial and administrative buildings, forests and agricultural plots, and 70,000 commercial and residential entities have been restored to the original owners or their heirs. In Prague, the restitution process concerned up to 70% of all buildings located in the city centre (Sýkora, Šimoníčková 1994). After restitution, the property could be immediately sold on the market. The restitution process created the strongest impetus for the development of the real estate market in the Czech Republic.

**Small-scale privatization** started in 1991 and had ended by the beginning of 1994. In this period, approximately 22,000 small state-owned businesses, such as retail and service outlets, hotels or small workshops were sold in public auctions. In Prague, about 2,500 units were auctioned. However, in most cases only the right to lease (secured for five years) was sold. The subsequent impact on real estate market development has been limited. The prices paid in small privatization auctions show the influence of different location-based rent levels on the decision making of buyers. After years of land prices and rents remaining homogeneous throughout the area in question, a strong differentiation appeared between central and peripheral areas. On average, one sq m in the centre of Prague was 30 times more expensive than one sq m on the city's outskirts (Sýkora 1993, Sýkora, Šimoníčková 1994).

**Large-scale privatization** has been implemented in two privatization waves. The first wave was launched in 1992 and completed by mid-1993. The second wave commenced in 1994 and was completed by the beginning of 1995. Large-scale privatization comprised sales of shares to domestic and foreign investors and shares transfers through a voucher-based mass privatization scheme. In both waves, shares in about 3,900 companies were sold. At present,

the state still retains share in a number of major commercial and financial enterprises, for example utility companies or major banks. So far, large-scale privatization has not had a major direct impact on the development of commercial property markets. Industrial, warehouse and other kinds of property sold under this programme can be freely sold. However, due to their obsolete state, they have not become an important part of current property exchange.

Local property markets have also been influenced by the **sale of municipal property**. In a number of communities, local governments started to privatize housing through sales of entire apartment buildings or individual flats and commercial spaces. Some cities and towns are selling off their public land and buildings to help finance public projects. Others use the money to help their budgets. There are also the first cases of municipalities selling land to investors with the primary aim of stimulating local economic development.

A general **liberalization of prices** had already been introduced at the beginning of the reform process in January 1991. At that time, 85% of consumer prices were deregulated, including those governing real estate. Since then, the price of real estate has been determined by negotiation in the market place. At present, the only remaining controls pertain to utility charges, public services and housing rents. An administratively set price exists for real estate for the purpose of property valuations, which serve as the basis for collecting taxes. Nevertheless, this does not influence the market price.

The **rent for commercial** space is fully liberalized now. However, until mid-1995, there was a state decree regulating rents for non-residential premises. However, local governments could deregulate rent in their own areas or declare higher ceilings of rent regulation. In Prague, no regulation actually operated, either because rents were fully liberalized or because rent ceilings were so high. In the case of leases to foreign subjects there was no regulation. A different approach was applied to **rent deregulation in the housing sector**. In the case of unlimited leases held by Czech citizens for both

public and private rental housing, rent is still regulated. As a result of step-by-step deregulation, rent ceiling levels have doubled when compared to the growth of consumer prices (Sýkora 1996).

The liberalization of foreign trade and currency convertibility created a favourable contextual environment for the entrance of foreign actors into local real estate markets. The almost complete liberalization of quantitative controls on imports and exports was undertaken in 1991 and since then a very liberal trade regime has been maintained. The Czech Crown (CSK) was made fully convertible in October 1995. Czech citizens have the right to convert CSKs into hard currency when buying foreign real estate, and Czech companies have the right to buy foreign currency to make investments abroad. The main restriction on capital inflow concerns the prohibition on real estate purchases by non-residents. Foreigners can establish a company registered in the Czech Republic, through which real estate can be acquired. Foreigners can also repatriate profits and income from investments and other sources.

Due to the rapid progress of the transformation process and the swift advance toward a liberal economic system, the Czech Republic has attracted the attention of international firms and stimulated growth in direct foreign investments. Its positive economic growth, with an increasing GDP since 1994 (4% in 1995), and its relatively low rates of inflation (9.5% in 1995) and unemployment (3.5% in 1995), have created a favourable environment for the growth of real estate transactions.

### ***1.2. The Development of Property Markets in the Czech Republic***

The privatization processes distributed real estate among private actors and price and rent liberalization created the basic conditions for the market pricing of traded property. Consequently, many new, private owners have attempted to sell property acquired through privatization, particularly during the restitution process. The transformation process created a favourable environment in which a number of newly established private businesses mushroomed. Both domestic entrepreneurs and for-

eign firms expanding their operations into Central and Eastern Europe sought real estate for their business activities. Real estate transactions grew rapidly during 1991-92, when the first restituted properties came on the emerging real estate market. Such property included apartment houses and villas, hotels, restaurants, small factories, land, and some historical buildings, such as castles.

Interest was focused on trading apartment houses with a substantial share of commercial space as well as empty or only partially inhabited buildings. Hotels, restaurants and pensions in large towns and tourist areas were successfully marketed as well. Great demand was generated for villas in high status neighbourhoods situated in large towns and cities as well as for land zoned for house-building and commercial projects in the vicinity of such urban centres. In 1991-92, the newly established commercial banks were willing to finance fledgling entrepreneurs, and real estate transactions grew substantially.

The potential for real estate business has been recognized by Czech entrepreneurs and hundreds of real estate businesses have been established. The Association of Real Estate Agencies in Bohemia, Moravia and Silesia (ARK ČMS) was founded in July 1991 by seventeen agencies and currently (1996) has more than 200 members. APRES (The Association of Prague Real Estate Agencies) was founded in February 1992 and consists of eight members. There are also about 50 foreign companies dealing in local property (RECR 1993). According to the registry of the ARK ČMS, there are approximately 4,000 businesses (firms and self-employed entrepreneurs) involved in real estate (including real estate management and maintenance firms).

In 1993, the first property units privatized during the small- and large-scale privatization campaigns appeared on the real estate market which was overloaded with restituted property. At that time, domestic demand was decreasing and foreign interest was concentrating exclusively on the major cities of Prague and Brno. The arrival of property from the small- and large-scale privatization campaigns on the real estate market had only a secondary influence,

and in terms of both quantity and quality was not comparable with restitution.

Since the beginning of 1993, the supply of real estate has exceeded demand (excluding certain special segments of the market, such as top quality commercial space in large cities). The financial sources of commercial banks have become exhausted and the chances of obtaining credit for property purchase or development have rapidly decreased. Consequently, property prices have declined and the real estate market has begun to show signs of recession. The only exceptions have been Prague and, to a certain extent, Brno. In these two cases most real estate investments have been stimulated by demand coming from foreign firms and major domestic financial institutions.

In the first half of the 1990s, a clear regional pattern in the operation and performance of real estate markets emerged in the Czech Republic. Prague acquired the privileged position of being the city attracting most foreign attention. Brno, the second largest city and "capital" of Moravia, also gained some attention from foreign property investors and developers. In 1991-92, property prices in these cities rose rapidly and were comparable to, or even higher than those in similar sized Western European cities. Since 1993, prices have declined as a reaction to the increasing supply of property and have more or less stabilized now. In regional centres, towns with 100,000-180,000 inhabitants, real estate has been purchased mostly by domestic entrepreneurs. Consequently, there are large price differentials between regional centres and Prague. In the countryside, attention has focused on towns with 3,000+ inhabitants (there are more than 6,000 municipalities in the Czech Republic, the majority of them with less than 3,000 people; see Dostál & Kára 1992). Small rural settlements have been neglected, with the exception of the second (weekend) housing market, and trading in agricultural land and property has stagnated. With regard to property market dynamics, a visible difference exists between those areas on the western and southern borders with Germany and Austria and the remaining peripheral areas of the country.

At present (1996), the major barrier to the development of the property market in the Czech Republic are the credit policies of Czech commercial banks. Lack of financing for property acquisition and development has been one of the critical limitations on the current property market. Typically, when credit is available, it is short term (five to ten years) and granted at high rates of interest (13-14%). These conditions severely restrict the possibilities for domestic investment in real estate. New property projects are financed mainly from abroad, a strategy limited to a few of the strongest and, particularly, foreign firms.

## **II. DEVELOPMENT AND PERFORMANCE OF THE COMMERCIAL REAL ESTATE MARKET IN PRAGUE**

Prague is the capital city and largest settlement in the Czech Republic. It accounts for 1.2 million of the Republic's 10 million citizens. The city is the major centre of both state administration and business activity. Up to now, Prague's property market has shown the most dynamic development of all the country's property markets. In 1993-95, the city witnessed a rapid growth in the number of newly constructed and refurbished commercial buildings, a trend which is likely to continue and accelerate in the coming years.

Political and economic reforms brought about the development of the domestic business sector, which in turn demanded commercial premises. The expansion of the private entrepreneurial sector in Prague caused a growing demand for office and retail space. The most influential domestic firms have been those dealing with banking and other financial services. However, a significant demand for commercial space came from international firms expanding their operations into Central and Eastern Europe. By the end of 1994, 26% of all registered economic entities 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 their central and inner city locations in particular.

At the beginning of the 1990s, demand had not been met by a sufficient supply of commercial real estate. The capacity of existing premises was very limited and unable to meet the standards required by international companies. There were only a few better quality buildings used by state owned foreign trade companies. In 1990-92, 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 office, industrial and residential buildings and constructing new projects with the aim of providing high standard office and retail accommodation. The major barrier to the development of real estate has been a lack of finance, particularly 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 internationalized sectors of Prague's urban economy. Most of the new constructions have been financed, developed and traded by foreign firms. Foreign investors and developers were attracted by very high returns (10-13%) compared to Western Europe, but discouraged by uncertainty surrounding political and economic developments in the Republic, as well as limited knowledge of local planning procedures and the legal and institutional foundations of the real estate business.

### ***II.1. The Development of New and Refurbished Office Space in Prague***

The city of Prague has a distinct business core located within the historical districts of Prague 1 and Prague 2. The centre contains over half of the city's total office stock. It is a place where about half of Prague's retail turnover is realised and where approximately one third of all jobs are concentrated (Sýkora & Štěpánek 1992). The residential function of this

part of the city has been in permanent decline since the beginning of the twentieth century, while government buildings, banks and office buildings are increasing their share of land use. Currently, about three quarters of all floor space in the historical core (Sýkora 1995) is in non-residential use. The main office buildings are spread out across the city centre with the highest concentration of commercial space in New Town and Old Town on the right bank of the Vltava river. The left bank of the historical core is characterized by a concentration of government, parliamentary and presidential buildings and offices.

In 1995, the total stock of office space in the city was estimated at about 2 million sq m (INCOMA 1996). Newly constructed commercial centres (during 1993-95) represented 100,000 sq m of this total while refurbished buildings (entering the market in 1992-95) constituted an additional 210,000 sq m. Currently (1996) a large number of projects are in the pipeline and an annual supply of office space is estimated at 100,000-130,000 sq m.

The first "business centres" appeared on the market in 1991-92. They were based on providing basic secretarial services for a few small business firms. Quite often they were used only for purposes of "a good address", i.e., mail delivery. These "business centres" were used by both domestic and some foreign companies, and were opened in quickly refurbished restituted houses. During 1991-92, most transactions in Prague's real estate market concerned the redistribution of current building stock and the property units on offer were mostly refurbishments which often failed to meet the required standards. Nevertheless, due to the high scarcity of available commercial space, extremely high prices and rents (over DEM 100 per sq m) were demanded. During the second half of 1993 the first large, new schemes and top level refurbishment projects were realized. They helped stabilize rent levels in the office sector at about DEM 50-55 (USD 29-32, CSK 850-930) per sq m per month for brand new offices and top refurbished space. This rent level has been maintained up to the present (mid-1996) and there are no expectations of major changes in this trend.

In 1993, the first major and up to now the largest post-1989 new office project arrived on the market in the form of the International Business Centre (IBC) with 24,000 sq m of office space (The Motokov building, constructed in the 1980s, offers the largest overall office area with 36,000 sq m). A major refurbishment project for Betlem Palace, reconstructed by a Czech construction company, involved total floor-space exceeding 10,000 sq m and 5,000 sq m of net office space. During 1994, six medium-sized projects for new office accommodation added 27,300 sq m of office space. Two of these projects were developed by foreign firms and the other four were initially built by Czech companies for their own use, but later fully or partly offered for rent or sale. The foreign financed projects are located in the city centre and its vicinity, while the domestic buildings are located in both the inner city and outer city areas, a feature which clearly distinguished foreign and domestic investments in office projects. In 1995, 43,400 sq m of new office space in ten buildings were added to the city stock. The major development of the year was the Prague City Centre with 17,500 sq m of net office space located in the historical core of the city. In both years (1994-95), a substantially higher portion of office space was supplied in refurbished buildings (see tab. 1). This feature will, however, change in the coming years when the possibilities for reconstruction will be exhausted. Local governments will more tightly control transfers of residential buildings for commercial use and, last but not least, the nature of demand will shift requirements to larger and more flexible office space, which old buildings cannot offer. Nevertheless, the market for refurbished historical buildings in the city centre will remain limited to a specific niche of the most prestigious locations where the possibilities of building new offices are at present severally restricted by the protected status of the city's historical core (Sýkora 1995).

Most of the new and refurbished office buildings offer less than 5,000 sq m of total office space. There have been only five newly constructed and two refurbished office centres with a capacity exceeding 5,000 sq m. A number of commercial projects will be finished in 1996 providing new offices, especially in the city centre. The largest, Myslbek, will contain 17,600 sq

m of office space, 6,400 sq m of retail space and a further 1,200 sq m designed for cultural purposes.

We estimate that in the coming years there will be an annual supply of 50,000-70,000 sq m of offices in new buildings and additional space in refurbishments bringing the total annual supply of new and refurbished office space to a level of 100,000-130,000 sq m. Current (1996) development on the Prague real estate market shows a substantial structural shift of demand which will be mirrored by office supply in the coming future. While in early 1990 most of this demand was derived from the growing number of new companies, since the mid 1990s it has been fuelled mostly by the expansion of existing firms. The demand of newcomers was focused on smaller offices up to 500 sq m. Firms usually accepted low quality office space and location choice was restricted by the limited supply. The demand of both established and expanding companies is in the range of 1,000-3,000 sq m of office space. They require high quality accommodation and have 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 a limited supply, differentiated demand is beginning to play an important role on the commercial property market. Changes in the geographical pattern of new projects will represent another major shift characterising Prague's office market in the coming years. With the exhaustion of potential sites for office development in the city centre, new projects are being planned for both the inner city and the outer city areas, and some have already been launched. This change has also been stimulated by the differentiation of demand as some companies or their branches require modern and efficient office space, but the nature of their operations does not necessarily require locations in the heart of the city.

In the future, we expect that demand will be higher than supply. There will also be high take-up rates, low vacancies, stabilized rents and reasonably high yields that will bring Prague's office market to its full maturity around the year 2000. In the year 2000, total commercial office space in Prague will amount to approximately 2.7 million sq m, a figure still



lower than that boasted by comparable Western cities (see tabs. 1-4).

### ***II.2. The Behaviour of Foreign Firms on Prague's Office Market***

Foreign firms are among the most important actors generating demand for office space in Prague. In January-March 1996, we carried out a survey focused on the behaviour of foreign firms with regard to their real estate interests in Prague. The research was in the form of a mail survey. Questionnaires were sent to 1,466 major firms. A total of 386 completed forms were returned (a response rate of 26.3%).

The majority of the firms in the sample declared their country of as either the USA., Germany, the UK, Austria or France. The largest amount of office space was occupied by US, German and Austrian firms, followed by companies from the UK, France, Switzerland, Sweden and the Netherlands. Most of the firms had established themselves in the city during 1991-92 (57%) (see tab. 5). 45% of them concentrated in the city centre, an area that accounts for 5% of the overall area of Prague (see tab. 6). An additional 33% were located in the vicinity of the centre, 16% in the more remote parts of the inner city and 10% in the outer city areas. 7% of the firms surveyed had their offices in newly (post-1989) constructed commercial buildings, 20% in refurbished buildings and 40% in buildings which were only partially reconstructed. The average firm occupied 295 sq m of office space and office space per firm increased with the growing distance from the city centre (see tab. 6). Most of the firms occupied office space in the range of 100-500 sq m, and only 13% were located in offices exceeding 500 sq m (see tab. 7). Only 5% of firms owned their offices while the rest held them under lease arrangements. Lease contracts were signed for different lengths, most often for three to five years (see tab. 8). The average monthly rent for new office space in the centre was above DEM 50 per sq m. Centrally located refurbishments were leased for DEM 40-50. In locations on the outskirts, offices were available for DEM 20-30. Office accommodation was usually obtained through

direct contact with a landlord (in 60% of cases) and real estate agencies were involved in only a quarter of the cases investigated (foreign real estate firms were contacted only in 9% of these cases, see tab. 9).

The survey also attempted to clarify the issues of location stability, firm movements within the city and the reasons for changing office space. 56% of firms have moved since setting up operations in Prague. The most frequent reasons for such moves were: insufficient working space (74%); the inadequate quality of office accommodation (39%); an inconvenient locality (16%), and high rent (14%). Firms which intend to move during 1996 gave the following reasons: insufficient working space (61%), low quality of offices (29%), high rent (19%) and inconvenient locality (10%). This information indicates an important trend in demand: both already established and expanding firms require larger office space (see tabs 5-9).

### ***II.3. The Development of the Retail Market***

The development of the retail sector has been strongly influenced by government privatization policies. Restitution and small-scale privatization (Earle et al. 1994, Sýkora & Šimoníčková 1994) substantially changed ownership or occupation rights regarding real estate where small businesses, particularly retail businesses, are located. New lease contracts were signed and the structure of retail services changed radically, especially in tourist areas of the city centre. Shops supplying everyday goods to the local population were replaced by luxurious outlets targeted on business people, foreigners and tourists. Rents in the prime retail areas currently (1996) stand in excess of DEM 200 sq m per month.

International retailers such as Benetton, IKEA, K-mart, Levis etc. established outlets in Prague. Fast food chains, such as McDonald's, Harvey's, KFC or Pizza Hut, have also been active in recent years. Several major international operators are currently seeking good locations where they can establish outlets, Marks and Spencers and Tesco's being the most prominent. However, no major retail develop-

ment has taken place in the central city area and changes have been carried out within already existing premises. Three downtown shopping malls are currently under preparation. The only remarkable retail project finished recently has been Pavilon, an ornate nineteenth century market place which has been converted into a fashionable Western style shopping mall. However, the high price profile of retail services in Pavilon is in contrast with its location in an inner city neighbourhood far from the major tourist routes and with very limited possibilities for parking.

In both the inner city and outer city areas, local shopping centres have been purchased and refurbished by international retail chains, such as Julius Meinl, Plus Discount or Delvita. Currently, the development of new retail facilities is attracting growing interest. New constructions on green field sites are focused on high turnover food supermarkets and do-it-yourself outlets. Furthermore, a number of out-of-town shopping centres are in preparation. There are a growing number of newly finished facilities usually designed for owner occupation and not for the letting market. Large retail concentrations are being developed on the city outskirts. IKEA will soon move to a newly built superstore located on the western city boundary, close to an underground station and next to the motorway going to Germany. The German furniture retailer Walther will build a large shopping centre in the same location and the developer Lordship intends to supply retail space in the commercial centre of Prague West. Similar projects are being carried out in the eastern part of the city and on the edge of the large high rise housing estate South Town, both located next to motorways and underground lines.

#### ***II.4. Investment Market***

Until recently, the investment market was virtually inactive. The only exceptions were acquisitions of new commercial buildings for owner occupation. Examples are purchases of new and refurbished buildings made by the Czech Trading Bank, the Czech Investment Bank, the insurance companies Generalli and Allianz, etc. However, a genuine investment

market with the involvement of major pension funds and investment trusts has not yet been developed. No significant transactions have yet been completed on standing investment property. The main reasons are the limited number of buildings suitable for institutional investments and the perception of Central and East European countries as higher risk countries. Consequently, the uncertainty and risk outweigh the attractiveness offered by high returns in the order of 10-13%.

### **III. THE IMPACT OF COMMERCIAL PROPERTY DEVELOPMENT ON URBAN CHANGE**

The development of the commercial property market brought a more economically effective utilization of urban space in central city areas. The process of commercialization has been accomplished through the involvement of several mechanisms. In the early 1990s, existing office and retail premises were redistributed among new users and owners. Demand for new office and retail space derived from newly established domestic private companies and small entrepreneurs as well as from foreign companies expanding their operations into Central and East European states. Together these business enterprises stimulated development of new commercial centres as well as the 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 buildings in central, inner and outer city areas.

Most of the attention of developers seeking good locations for business centres has been focused on the central city area. New office construction has been highly concentrated in Prague's city centre. New developments have brought a positive change to the central areas, particularly in the form of physical improvements and economic revitalization. However, the high concentration of new commercial developments has also presented problems for the city. The conflict between the cultural heritage of historical buildings and new commercial developments is one of the issues that concerns local government as well as the general public. Severe problems may soon be caused by increasing car traffic serving the new business

centres. Pedestrian zones are being abolished in favour of cars (in the case of the Myslbek project, for example). Furthermore, large car parks are being built under commercial centres and, consequently, more cars are being brought to the narrow streets of the medieval city. Last but not least, commercialization has often been achieved by converting residential buildings into office space, a strategy that has reduced the share of residential space in the city centre and caused a further decline in population.

The possibilities for further projects in central city areas are nearly exhausted and new construction is moving to inner city commercial sub-centres. There is also increasing interest in outer city areas, where light industrial, warehousing, distribution and high turnover retail facilities are being planned and constructed. The decentralization of commercial development is a major trend that will have a strong impact on the urban structure in the coming years.

**TABLES**

**Tab. 1**  
**Supply of Newly-constructed and Refurbished Office Space in Prague (1993-95)**

sq m		1993	1994	1995
newly constructed	total sq m	28,000	27,300	43,400
	no. of projects	2	6	10
refurbished	total sq m	26,200	80,400	105,000
	no. of projects	16	50	62

Source: Personal database

**Tab. 2**  
**Supply of Newly-constructed and Refurbished Office Space in Prague (1996-98)**  
**Generated from Currently Known (mid-1996) Projects**

sq m		1996	1997	1998
newly constructed	total sq m	50,400	67,300	115,000
	no. of projects	12	8	6
refurbished	total sq m	60,100	10,800	9,200
	no. of projects	28	4	2

Source: Personal database

**Tab. 3**  
**Territorial Differentiation of Newly-constructed Office Space in Prague (1993-98)**

	1993	1994	1995	1996	1997	1998
	realized projects (%)			expected projects (%)		
central city	86	33	81	79	23	6
inner city	14	39	17	20	77	31
outer city	0	28	2	1	0	63

Source: Personal database

**Tab. 4**  
**Territorial Differentiation of Refurbished Office Space in Prague (1993-98)**

	1993	1994	1995	1996	1997	1998
	realized projects (%)			expected projects (%)		
central city	94	79	64	70	100	100
inner city	6	21	23	23	0	0
outer city	0	0	12	7	0	0

Source: Personal database

**Tab. 5**  
**Year of Establishment in Prague**

Year of establishment	No. of firms	%
before 1990	28	7
1990	47	12
1991	120	31
1992	100	26
1993	51	13
1994	23	7
1995	5	1
missing answer	12	3

Source: "Survey of Foreign Firms' Behaviour on Prague's Office Market" (Jan/Feb 1996)

**Tab. 6**  
**Geographical Pattern of Firms, Office Space and Average Office Space per Firm in Three Major Zones of the City**

Location	No. of firms	%	Total sq m	%	Sq. m / firm
city centre	173	45	46,305	41	268
inner city	190	49	56,139	49	295
outer city	23	6	11,483	10	442
total	386	100	113,927	100	295

Source: "Survey of Foreign Firms' Behaviour on Prague's Office Market" (Jan/Feb 1996)

**Tab. 7**  
**Size of Occupied Office Space**

Occupied office space in sq.m	No. of firms	%
less than 100	106	27
100-499	211	55
500-999	27	7
1,000-2,999	20	5
3,000 and more	5	1
missing answer	17	5

Source: "Survey of Foreign Firms' Behaviour on Prague's Office Market" (Jan/Feb 1996)

**Tab. 8**  
**Length of Lease Contract**

Length of lease contract	No. of firms	%
up to one year	59	15
1-3 years	82	21
3-5 years	103	27
over 5 years	91	24
unlimited	19	5
owner-occupation	21	5
missing answer	11	3

Source: "Survey of Foreign Firms' Behaviour on Prague's Office Market" (Jan/Feb 1996)

**Tab. 9**  
**Method of Finding Office Accommodation**

Office accommodation search	No. of firms	%
Czech real estate agency	63	16
foreign real estate agency	36	9
direct contact with owner	230	60
diplomatic service	4	1
advertisement	10	2
other	34	9
don't know	3	1
missing answer	6	2

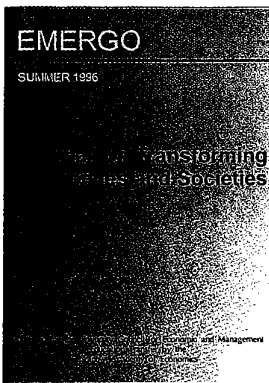
Source: "Survey of Foreign Firms' Behaviour on Prague's Office Market" (Jan/Feb 1996)

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# The Real Estate Sector in Transition Economies

## Contents

*Austin J. Jaffe*

**The Real Estate Sector in Transition  
Economics.....2**

*Dwight M. Jaffee, Olga Z. Kaganova*

**Real Estate Markets in Urban  
Russia.....5**

*Clare T. Romanik, Raymond J. Struyk*

**Dynamics of Housing Privatization in  
Moscow.....20**

*Sally Merrill, Duncan MacLennan, Bengt Turner*

**Evolution of a Market-Based Rent Structure for  
Public Housing in Poland.....37**

*Luděk Sýkora, Ivana Šimoníčková*

**The Development of the Commercial Property  
Market and its Impact on Urban Development in  
the Context of Transition from a Command to a  
Market Economy: The Case of the Czech  
Republic and Prague.....74**

*Leonid Ed. Limonov*

**Land Buy-outs by Privatized Enterprises and  
Property Market Development in  
Russia.....89**

*Koloman Ivanička, Mária Zúbkova, Eva Šindlerová,  
Daniela Špírková*

**Housing Finance in the Slovak Republic and  
other CEFTA Countries.....102**

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