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PRAGUE METROPOLITAN AREA

by Jones Lang LaSalle

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DEVELOPMENT ENVIRONMENT

Prague, the capital and principal city of the Czech Republic, is located in central Europe, strategically placed at the crossroads of western and eastern Europe amid Germany, Austria, Slovakia, and Poland. The country includes 6,200 municipalities, 77 districts, and, beginning in 2001, 14 regions with elected regional governments. Prague has the status of a municipality and will become a region.

The city of Prague consists of 57 boroughs, each with an elected local government. However, the decisive power concerning urban development and planning is vested with the central-city government. In 1999, the General Assembly of the Capital City of Prague approved two important documents governing urban development: a program to implement the strategic priorities of city development and a new master plan. The following major public investments are planned: extension of the underground transportation system, construction of new sections of the inner and outer express ring roads, and modernization of technical infrastructure in the inner city. In an effort to move from a monocentric to a polycentric urban structure, city regulations encourage compact urban development and decentralization of commercial functions from the city-center CBD to neighboring areas and selected outer-city nodes.

After the political change in 1989, democracy was quickly established and rapid economic reform led to the reintroduction of a market economy. The Social Democratic Party won the parliamentary election in June 1998 and formed a minority government. The political stability of the country is ensured by a signed agreement between the social democrats and the conservative Civic Democratic Party. This agreement specifies conditions under which conservative members of parliament support (by their votes) the minority government of the social democrats.

In 1995, the Czech Republic became the first former eastern bloc country accepted by OECD, and in March 1999 it became a member of NATO. The Czech Republic is in the first group of countries currently preparing for accession to the EU.

Economic reforms aimed at the rapid introduction of market principles were launched on January 1, 1991. The main pillars of the transformation policies are the privatization programs and the liberalization of domestic and foreign trade.

Privatization has involved rapid and wide distribution of existing assets. As measured by the growth of the private sector's contribution to GDP, private ownership increased from 4 percent in 1990 to about 75 percent in 1998. At present, the state is selling its stakes in major banks. In 1999, Belgian KBC Bank acquired the Czechoslovak Trade Bank (CSOB), and, at year's end, the sale of the major savings bank, Ceska Sporitelna, to the Austrian Erste Bank was in final negotiations.

General liberalization of prices began on January 1, 1991. At present, only utility charges, housing rents, fees for postal services and telecommunications, and health care are still under government control. In 1991, quantitative controls on imports and exports were almost completely lifted. The focus of foreign trade has shifted westward, away from the country's traditional partners in the former eastern bloc.

The Czech koruna (crown), which is pegged to the Deutsche mark and the U.S. dollar, became fully convertible in 1995. Czech citizens may convert crowns into hard currency to buy foreign real estate, and Czech companies may buy foreign currency to make investments abroad. The principal remaining restriction on capital inflow is that nonresidents are prohibited from purchasing real estate. Foreigners, however, may acquire real estate by establishing a company registered in the Czech Republic. They may also freely repatriate profits and income from investments and other sources.

Since 1997, the Czech economy has been in recession. Although GDP was up a little in second-quarter 1999 compared with the first quarter, annual GDP growth for 1999 was expected to be no higher than 0.5 percent. The country's unemployment rate has been rising rapidly and reached nearly 9 percent in 1999, while Prague's unemployment rate was 3.6 percent. The inflation rate is among the lowest in the region at around 3 percent.

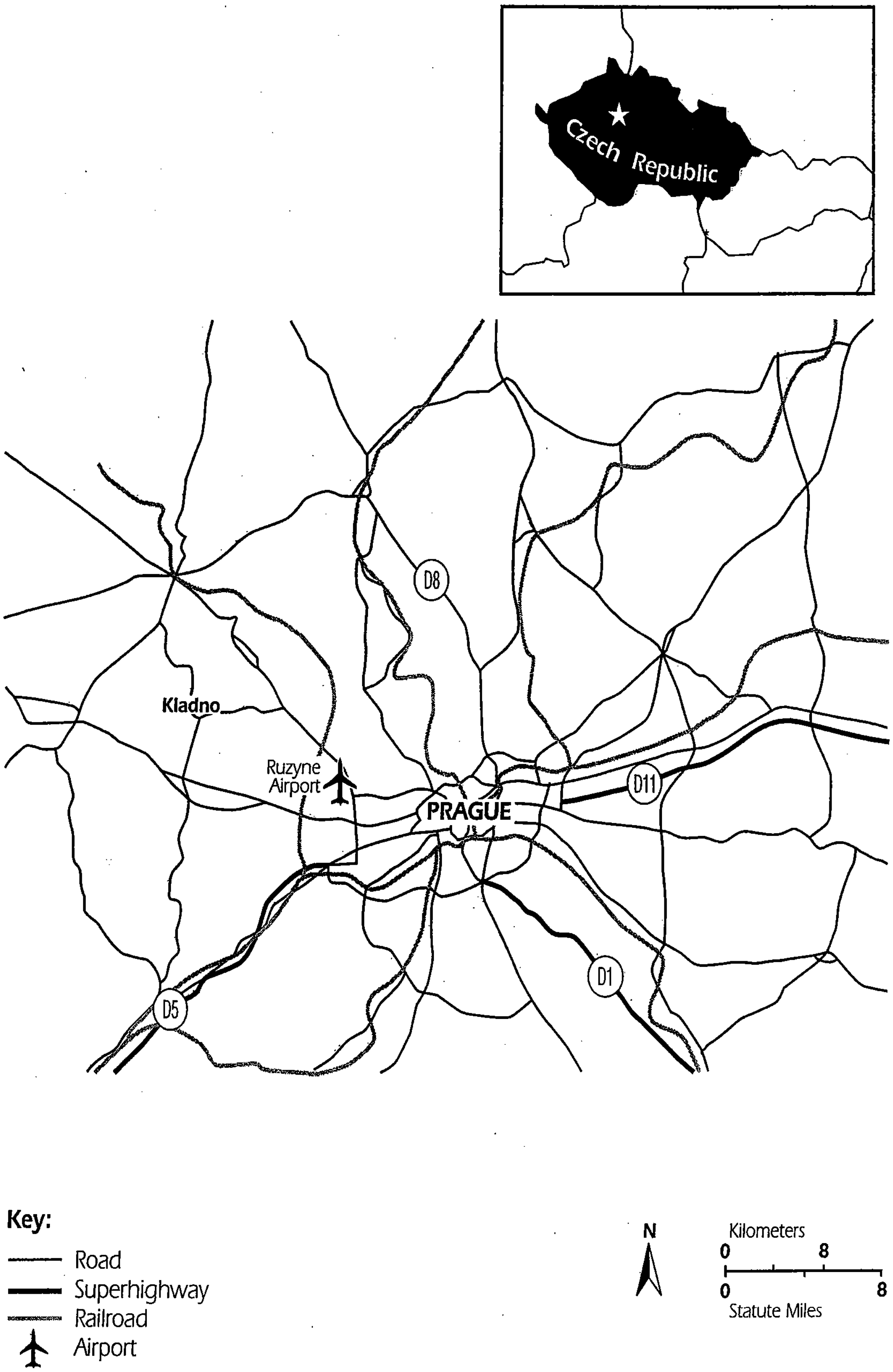
CZECH REPUBLIC

Population (1998): 10,294,943
Average Annual Population Growth Rate (1990–1998): –0.25%
Language Spoken: Czech
Land Area: 30,450 square miles (78,864 km^2)
Capital City: Prague
Cities with Population over 500,000: Prague, Brno, Ostrava, Pilsen
Monetary Unit: Czech koruna (Kc)
Exchange Rate (as of 10/7/99): \$1 = 34.02 Kc
\$1 = DM 1.8259
Average Annual Inflation Rate (1992–1998): 10.5%

REAL ESTATE MARKETS

Residential Market. Changes in the residential sector in the 1990s have included privatization, rent deregulation, the state's withdrawal from direct construction of new housing, and the introduction of a mortgage system. The first half of the 1990s saw a rapid decline in residential construction with a slow recovery starting in 1996.

PRAGUE MARKET AREA



In 1999, 39.9 percent of the housing units in the country were family houses (houses often occupied by more than one family; comparable to single-family product type in the United States), 10.2 percent were owner-occupied apartments (also includes co-ownership through companies established by tenants to facilitate privatization of public housing), 23.6 percent were social rentals, 7.3 percent were private rentals, and 19 percent were co-ops. In Prague, 10.1 percent of the housing units were in family houses, 11.5 percent were owner-occupied apartments, 32.2 percent were social rentals, 20.5 percent were private rentals, and 25.7 percent were co-ops.

Rents are regulated for 29.4 percent of the housing units in the country, 48.7 percent of the units in Prague. Net rents, which are being incrementally deregulated, increased 9.3 percent in 1999. The average net rent in the regulated segment of the housing market was nine times higher in 1999 than in 1990. Rent deregulation has been faster in large cities than in small ones; the current rent ceiling in Prague ($5.35 per square foot [1,956 Kc/m^2]) is twice as high as in towns with less than 100,000 inhabitants. Rapid deregulation and liberalization of utility charges and housing services contributed to the increase in total housing costs. Housing costs in rental housing now account for 19.4 percent of average net monthly household income.

The state no longer offers any direct financing for housing construction. Subsidies are allocated to municipalities to build social housing, and two programs are aimed at stimulating housing consumption (a housing savings plan and a mortgage program). The central government provides annual contributions to housing savings plans and interest subsidies for households that use mortgages to finance new housing construction or to purchase a newly built dwelling. Since the start of the mortgage program in 1995, 10,000 units have been started in the Czech Republic using mortgages supported by the state. However, the government programs have not stimulated extensive market-led housing construction because of the huge discrepancy between net monthly household incomes ($546 [18,589 Kc] in 1998) and residential property prices ($55 to $164 per square foot [20,000 to 60,000 Kc/m^2] in 1998). Only the small fraction of the population with the highest incomes can afford mortgages.

Since 1995, housing construction has been slowly increasing, especially in large cities and their suburban districts. In 1998, the number of completed housing units per 1,000 inhabitants was 3.2 for Prague compared with a country average of 2.2. In 1998, 22,183 housing units were completed and 35,027 started in the Czech Republic. The respective figures for Prague were 3,805 and 4,011. In 1998, 48.1 percent of completed housing units in the country and 25.1 in Prague were family houses. In Prague, multi-apartment housing dominates new residential construction.

In Prague, the market for new or renovated housing is divided into three major sectors: suburban single-family housing targeted to newly wealthy Czechs; new condominiums in the inner city targeted to young Czech professionals; and renovated villas and apartments in well-established, affluent central and inner-city neighborhoods targeted mostly to Western foreigners and some wealthy Czechs. Because of the scarcity of development financing and the population's low purchasing power, however, housing construction accounts for only a small fraction of the country's investment in real estate and infrastructure development.

Retail Market. Retail development has been influenced by the privatization and sale of smaller retail units to domestic entrepreneurs, the acquisition of larger shopping centers by foreign retail chains, the construction of new shopping centers downtown, and the construction of high-volume supermarkets, hypermarkets, and regional shopping centers in the suburbs. Growth is now concentrated in suburban hypermarkets.

Shopping center space in Prague currently totals 1.5 million square feet (143,000 m^2), with an additional 1.6 million square feet (152,000 m^2) now under construction and 4.9 million square feet (454,000 m^2) planned.

The retail market in the city center is characterized by strong demand from international retailers seeking outlets in prime locations. Shops opened in 1999 include Escada, Louis Vuitton, Hermès, J. Desange, Ferragamo, Alfred Dunhill, and Calvin Klein. Also opening downtown in 1999 was Millenium Plaza, a multi-use project comprising retail, office, and hotel space. Slovansky dum, a large project containing a multiplex cinema and a shopping gallery will open in 2000. Planet Hollywood closed its downtown location in 1999.

In the suburbs, four main shopping locations have emerged. In the east is the shopping complex Centrum Cerny Most, with Hornbach do-it-yourself and Sconto furniture superstores and Makro Cash and Carry nearby. In the west in the Zlicin area, there is Shopping Park Praha with IKEA, a Tesco hypermarket, and a number of smaller stores. Just across Highway D5, Globus has its hypermarket and do-it-yourself store. A third Makro Cash and Carry was completed in the nearby Stodulky area. The southeastern Pruhonice business zone on Highway D1 contains a Makro Cash and Carry, a Euronova (Dutch Ahold) hypermarket, Spektrum shopping gallery, a Gigasport store, and a number of other retail, wholesale, and warehouse outlets. In the north, Tesco opened its second Prague-area hypermarket in November.

Prime retail rents in the city center remain unchanged at $7.65 per square foot (DM 150/m^2) per month. Higher rents can be achieved in prime tourist locations. In the new suburban shopping centers, rents range from $.65 per square foot (DM 13/m^2) for the food anchors and do-it-yourself operators and $3.05 per square foot (DM 60/m^2) per month for smaller units. Prime yields for shopping centers range from 9.75 to 12 percent.

Office Market. The office market is the most mature segment of the real estate market in Prague. By the end of 1999, Prague had 8.3 million square feet (776,000 m^2) of modern office space. In 1999, 2 million square feet (187,000 m^2) of new and 742,400 square feet (69,000 m^2) of refurbished office space was added to the existing stock, a substantial increase over previous years' new supply. Absorption for 1999 amounted to 1.5 million square feet (140,000 m^2), similar to the rate of absorption in 1998. The 1999 vacancy rate was about 16.2 percent, with more than half of the vacant space located in Prague 1—the city center.

From 1992 to 1996, 70 percent of new and refurbished office space was located in the city center. More recently, however, the supply of new space has been spreading to adjacent inner-city and some suburban locations. Because of the lack of domestic financing sources, a significant portion of new high-quality office development has been financed by foreign capital. The most active developers are from France, Austria, and Germany.

In the early 1990s, foreign companies establishing a presence in the city and domestic financial institutions were the primary sources of demand for high-quality office space. Domestic companies typically occupied existing older and poorer-quality buildings. Currently, demand has come primarily from expanding foreign and domestic companies needing larger units and better-quality office space. A discernible shift has also occurred away from the city center toward inner-city and suburban locations. Demand is driven particularly by the telecommunications sector. Current outstanding demand equates to 1.7 million square feet (155,000 m^2). More than half of this demand is created by companies looking for space larger than 16,140 square feet (1,500 m^2).

REAL ESTATE MARKETS

(Monetary figures not adjusted for inflation)

	1996	1997	1998	1999[1]
Population (Thousands)	1,208	1,202	1,193	1,185
Housing Market				
Annual Construction (Units)[a]	3,454	5,742	4,011	–
Typical Sale Price for New Units				
Detached Single-Family[3]	$161,670 (5,500,000 Kc)	$161,670 (5,500,000 Kc)	$161,670 (5,500,000 Kc)	$152,850 (5,200,000 Kc)
Apartment Condominiums[5]	$58,790 (2,000,000 Kc)	$67,610 (2,300,000 Kc)	$73,490 (2,500,000 Kc)	$76,425 (2,600,000 Kc)
Office Market				
Annual Construction[11]	538,000 sf (50,000 m^2)	570,280 sf (53,000 m^2)	1,016,820 sf (94,500 m^2)	2,012,120 sf (187,000 m^2)
Annual Absorption[12]	1,836,600 sf (110,000 m^2)	1,334,240 sf (124,000 m^2)	1,570,960 sf (146,000 m^2)	1,506,400 sf (140,000 m^2)
Vacancy Rate[13]	3.0%	9.5%	11.0%	16.2%
Typical Rate for Office Leases (Per Year)[14]				
Downtown[15]	$36.65 psf (DM 720/m^2)	$32.40 psf (DM 636/m^2)	$29.90 psf (DM 588/m^2)	$27.50 psf (DM 540/m^2)

Notes 1 through 15 can be found on page xii. Where report authors changed standard (numbered) table notes, a lettered author's note has been substituted. This table is therefore missing one or more note numbers. Standard notes 4, 6 through 10, and 16 though 22 do not apply to this table.

[a]Units completed.

Sources: Czech Statistical Office; Jones Lang LaSalle.

The typical lease term is three to ten years (three to five years in the city center and five to ten years in the suburbs). Prime rents for city-center premises fell to $1.95 to $2.30 per square foot (DM 38 to DM 45/m^2) per month. Rents elsewhere ranged from $1.20 to $1.75 per square foot (DM 23 to DM 34/m^2) per month.

Over the last year, Prague's office market saw its first two investment transactions. HypoVereinsbank property fund bought the Mediatel and Metrostav buildings, located next to each other in Karlin, Prague 8. The yield for prime office investments is about 9.5 to 11 percent.

Industrial Market. The industrial segment of the property market lags behind the office and retail sectors. Major problems, such as scarce funding and difficulties in preleasing, continue to restrict supply. Demand from foreign companies exists, but it is now satisfied by existing older facilities owned by Czech companies the foreign companies have acquired or entered into joint venture agreements with or by new space built to suit the foreign companies. For domestic companies, the issue is price. Older but generally adequate warehouse or manufacturing space is available; therefore, for the moment, domestic companies have little incentive to move to more expensive accommodations.

Prague's first speculative warehouse development, Airport Logistic Park, was completed in June 1999. Most of its 560,000 square feet (52,000 m^2) was still available for lease at year's end. A second speculative project is AIG Lincoln's D1 Logistic Park, which comprises 430,400 square feet (40,000 m^2). It was fully leased prior to completion in December 1999. A number of sites along highways (particularly Highways D1 and D5) have been developed on a build-to-suit basis. Base rents quoted for modern warehouse facilities remain at $.50 to $.60 per square foot (DM 10 to DM 12/m^2) per month, depending on location and quality. The yield for prime industrial investments is about 14 to 16 percent.