Global Property Insight

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North-south divide in focus

The economic crisis has thrown a spotlight on national differences in the region **Page 2**

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Faultline separates north and south

Overview Economic crisis has served to highlight central European differences, reports *Jan Cienski*

Central and eastern European property slumped last year as the region was knocked askew by the eurozone crisis, which hit the willingness of banks to finance development or mortgages, as well as the risk appetite of investors to put down cash for offices and shopping centres.

The hopes are that regional economies may start to revive by the end of this year and into 2014.

The crisis has marked increasingly stark differences between the countries of central Europe. Although they share a communist past, the period of more than two decades since the restoration of democracy and market economics has led them to diverge.

A faultline separates the successful north of the region – Poland, the Czech Republic and Slovakia – from a much more troubled south. That applies to everything from levels of corruption to the hardiness of democratic institutions and the soundness of fiscal policy. It can also be seen in the property sector.

"When we talk central Europe, we are talking Poland, the Czech Republic and Slovakia," says Stefan Aumann, a partner with Peakside Capital, which manages property valued at €2bn in Germany and the former communist states of central and eastern Europe (CEE).

"Hungary is quite a different game from the other three. Bulgaria and Romania are more difficult and less liquid – not worth the additional risk," he adds.

Of all the countries in the region, Poland is still on top. It made its international reputation by being the only EU country not to fall into recession in 2009 and has continued to outperform, although the economy is slowing sharply.

Investor interest shrivelled last year. The CEE attracted only €3.7bn in sales, down sharply from the €6.3bn reported in 2011, according to Cushman & Wakefield, the property adviser. Of that total, Poland attracted €2.8bn, up slightly from €2.6bn in 2011.

"I've always taken the view Poland is a better investment proposition than the CEE countries that neighbour it," says Ben Habib, chief executive of First Property Group, a commercial property investor.

There are signs of a change in sentiment, with a rise in new investment in the Czech Republic and Hungary during the first quarter of this year. Poland, particularly Warsaw, has risen up the rankings and is seen as being as attractive as leading western European cities. Prague is also on investors' radar.

The reason is that those cities are reasonably liquid, thus allowing investors the comfort of an exit if the global crisis worsens. This is harder to do in the more thinly traded markets of southeastern Europe.

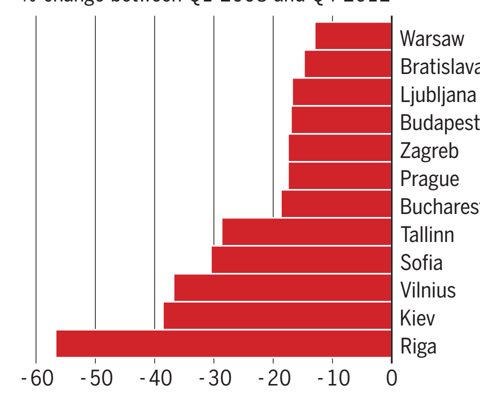
The crisis has made financial institutions more cautious about lending. Although most CEE banks are well financed and in better shape than their western European counterparts, they have become warier.

Before the crisis, a good business plan and a firm handshake were enough to pry large amounts from banks. Now they only lend to trusted partners. They will finance transactions but generally only for good properties in core areas of leading cities secured with long-term leases. Developers wanting to break ground have to show high levels of pre-leases or pre-sales.

Banks have tightened rules in the residential sector and borrowers looking to buy properties are being much more cautious as unemployment across the region rises. Continuing residential price slumps are putting off buyers who wonder whether the downward trend has ended.

Centre of attraction: Warsaw's Zlote Tarasy, or Golden Terraces, is a mixed office, retail and entertainment development Alamy

Residential prices in central and eastern European capital cities
% change between Q1 2008 and Q4 2012



Source: Reas/Jones Lang LaSalle

Bright spots include the office sector, which has been given a boost by an increase in business process offshoring, the migration of increasingly complex office procedures from more expensive countries. Poland has been the biggest beneficiary, especially its secondary cities, which supply well-qualified, cheap workers and rising quantities of modern office stock.

While CEE capitals are well supplied with shopping malls, there is still growth in the region's smaller cities, where modern shopping space had been a rarity. Cities such as Torun in northern Poland and Ploiesti in Romania have up-to-date shopping centres. Citizens of capitals, meanwhile, show increasing interest in high street shopping.

Investment in highways has brought a push to build more warehouses. Poland, again, is the leading beneficiary, mainly because it is a large country that had an awful road system. A burst of construction makes centralised warehouses a feasible option for serving the national market.

"By 2015 debt markets will start functioning more normally," says Hadley Dean, managing partner for eastern Europe for property company Colliers International. He says 2013 and 2014 are likely be "flat", which leaves some scope for calculated bets. "Now a lot of people are focused on core, core, core. But investments in more peripheral countries could pay off."

Eric Assimakopoulos, managing director of property investors Revetas Capital, says focus on central Warsaw is the result of a "school of fish" error that has led investors to miss opportunities elsewhere. He is looking for deals in Hungarian and Romanian retail, Poland's Krakow area and Slovakia.

Lambros Anagnostopoulos, chief executive of Secure Group, which is seeking properties in the Balkans, agrees. "There is higher economic and political risk in southeastern Europe . . . but yields in Poland are around 6 per cent, whereas Bucharest and Sofia are around 8.5 per cent and other countries even higher. We believe there is an arbitrage opportunity there."

Property is likely to track the rest of the economy, which means a significant revival is probably some way off. When it happens, interest could finally shift from Poland to more neglected parts of the region.

Road schemes help drive logistics deals

Infrastructure

Better connections improve prospects for business, reports *Jan Cienski*

When most of central Europe had terrible roads, it was difficult to set up large warehouses that could service countries or regions.

This is changing as countries such as Poland, Slovakia and Romania build national highway systems and the Czech Republic and Hungary put finishing touches to their more advanced networks.

Builders are establishing warehouses at the intersections of highways designed to service much of the region and occasionally parts of western Europe, too. Better roads mean logistics can be more centralised and shops can be smaller as they do not need to store as many goods.

"You see it most in Poland because that is the country that has benefited most from improved infrastructure," says Ben Bannatyne, managing director for central Europe at ProLogis, a logistics developer.

Investors looking for ways to diversify from office and retail are hoping to take advantage of higher industrial property yields.

Last year the US and European logistics space developer Panattoni sold more than 400,000 square metres to Blackstone Group, the US investment fund, for €250m. In addition there was the €120m sale of a logistics portfolio by ProLogis to Texas-based property firm Hines.

Easier riding: road works near Olsztyn in Poland Alamy

Poland attracted €460m in logistics and industrial investment last year, more than for the rest of the region.

Hadley Dean, managing partner for eastern Europe at Colliers, the property business, says: "Investor interest in industrial properties is steadily going up. Investors see it as a long-term play now the roads are being built."

Over the same period, the Czech Republic, which was in recession for most of the year, notched up only €15m in industrial and logistics investment, down from €385m a year before, according to Jones Lang LaSalle, the property group.

The spur for logistics investments is the overall condition of the economy, which in Poland's case has been outperforming most of the EU since 2008.

Poland has 4.6m sq m of warehousing stock, the bulk of it near Warsaw in central Poland and Silesia, in the southwest.

Last year there were 465,000 sq m of completions, while this year about 221,000 sq m are under construction, according to consultancy CBRE.

With average vacancies at 11 per cent, rents are low, ranging from €3 to €5 per square metre, which is hampering further investment. "Rents have been pushed so low that they can't go much lower," says Brian Burgess, managing director of the Polish office of Savills, the property company. "Some projects are being sold at the cost of the build plus land."

As the economy has slowed, the market for speculative projects has almost disappeared. According to Jones Lang LaSalle, only 12 per cent of the space under construction is being built on a speculative basis.

In the Czech Republic, only 8 per cent of the 196,000 sq m of industrial space under construction is being built on spec. The largest project is a production hall being built for Faurecia, a car parts supplier, in a sign of the importance of the industry, which supplies an important portion of Czech exports and one of the few glimmers of light for its economy.

Further south, the troubled Hungarian economy recorded no industrial investment deals last year. Little new construction is under way.

Speculative development has halted in Romania, where there were no investment transactions in the final quarter of last year, and where there appears to be a lack of credit to finance new development schemes, according to Cushman & Wakefield, the consultancy.

Only one industrial scheme was completed in the Bucharest area last year. There are 144,000 sq m under construction, spurred by a calming political scene and progress in the completion of Romania's two main highways, which will improve its links with western Europe.

Shopping centre boom fades as high streets regain ground

Retail

Traditional outlets have had a hard time in the downturn, says *Katka Krosnar*

Shopping centres began mushrooming across central Europe after the fall of the communist regime more than 20 years ago. They have increasingly come to dominate the retail scene.

"At a time when Poland's high streets were largely unattractive, modern retail centres, offering not just shopping but leisure activities such as cinemas, offered something new and very attractive," says Warsaw-based retail analyst Tomasz Sokolowski of DM BZ WBK, a stock brokerage in Warsaw.

More shopping is done in the region's hypermarkets and shopping centres than in high streets, a difference when compared with western Europe, notes Tomas Drtina, managing partner at Incoma GfK in Prague. Mr Drtina adds that the 12 shopping centres in the Czech capital of Prague compare with just five in the larger city of Munich.

Many international retailers opted to open their first stores in these venues rather than in high streets, says Mr Sokolowski.

High streets in central Europe have faced an even bigger challenge than in most other countries during the shopping centre boom.

Still, there are examples of successful high streets in the region. These include popular locations such as Parizska and Na Prikope in Prague and Marszalkowska in Warsaw.

> 'Polish high streets are becoming more attractive and have seen a slight revival'

Lined with luxury brand stores such as Gucci, Prada, Cartier and Louis Vuitton, Parizska has become a hotspot of top-names, attracting clients not only from among tourists thronging through Prague's old town but also locals.

"Parizska is unique. There is no other street like it in central Europe with such a concentration of [luxury] retailers," says Omar Sattar, managing director of the Czech division of Colliers in Prague.

International brands have steadily replaced local retailers here. Over the past five years the number of Czech retailers along Parizska has declined to 12 while the number of international brands has risen from 20 to about 35.

"Polish high streets are becoming more attractive and have seen a slight revival in the past year as Poles become somewhat bored with shopping centres," said Mr Sokolowski.

Kinga Barchon, head of PwC's property team in Warsaw, forecasts that this growing interest may bring a renaissance in high street investment transactions.

With few further sites for large central projects available, developers are increasingly switching to smaller mall formats in towns with populations as small as 30,000, explains Mr Sokolowski.

He adds that within three years there could be no available sites for new shopping centres in Poland.

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Businesses go east to offshore costly services

Outsourcing

Jan Cienski finds the sector is boosting the region's office market

One of the defining sights of central Europe used to be the endless blocks of grey concrete apartment buildings that surrounded cities from Szczecin to Sofia. Now it is low-rise office buildings housing the growing numbers of offshore business processing centres that increasingly encircle central and eastern European (CEE) cities.

The centres take care of back office needs ranging from simple call centres to more complex operations such as accounting, human resources, financial planning and research and development, either conducted by an external provider (known as business process offshoring, or BPO) or internally (called shared service centres).

The region has become popular with companies looking to reduce costs by outsourcing some activities, and the sector has become a primary driver of the CEE office market.

"It has become the main factor in the office market in regional cities," says Arkadiusz Rudzki, leasing and asset director with Skanska, the property developer. He says about 70 per cent of Skanska's office project investments are related to the sector.

Budapest: the city has been popular with outsourcers Alamy

Central Europe has attracted service centre investments because the region is in the EU and shares a legal code with the rest of Europe. It also has a well-educated population fluent in many languages and labour costs are less than half those in western Europe.

Research about the industry by consultancies such as Everest Group reveals that Poland rivals India and China as one of the top outsourcing destinations in the world.

While labour rates remain significantly lower in India, China and the Philippines, CEE countries share the same culture and timezone as western European businesses, so make good candidates for higher-value "nearshoring" investments.

As of the end of last year, Poland had about 380 outsourcing investments, which provided more than 100,000 jobs and the sector is expected to grow by about 20 per cent in 2013. While some centres are located in suburban Warsaw, regional cities including Poznan, Wroclaw and especially Krakow have drawn growing numbers of investors thanks to lower rental prices – rents in those cities hover at about €10 per square metre, less than half charged in prestigious central Warsaw.

Jones Lang LaSalle, the property consultancy, estimates about 1m square metres of Poland's total office stock of just over 6m sq m are being used by offshoring businesses. In some secondary cities such as Krakow and Lodz, about 40 per cent of office stock is occupied by such businesses, while in Wroclaw just over a third of offices are let to offshoring centres.

Service centres are spreading from large secondary cities to tertiary ones. In all, about 50 Polish cities and towns host offshoring investments.

Poland's 38m inhabitants and the large number of significant secondary cities with populations of close to 1m make it unique.

Other CEE countries have succeeded in attracting offshoring centres but there they tend to cluster near the capitals.

In the Czech Republic, about 80 per cent of the country's office space is concentrated in Prague, although there have been some offshore investments in Brno and Ostrava, the leading secondary cities.

Hungary was one of the earliest destinations for service centres but its higher wages, slowing economy and turbulent politics have made it less attractive in recent years. Budapest has about three-quarters of the more than 70 centres in Hungary and the city tends to attract the most interest from foreign developers. Debrecen, in the east, also functions as an outsourcing centre.

Romania, the second-largest CEE country in terms of population, is a growing BPO destination. Wages are even lower than in Poland. A junior accountant can expect to start at about €350 a month, while in Poland he could earn €750 and in the Czech Republic he would start at €950, says Jones Lang LaSalle.

Romania has more than 30,000 people working in about 80 centres, with most in Bucharest. Investors are beginning to move into secondary cities such as Cluj-Napoca and Iasi.

Outsourcing is expected to grow regionally, aided by the financial crisis in western Europe, which is pushing companies to shift some expensive functions to the east of the continent.

Global Property Insight CEE

Warsaw's commerce keeps its strength

Poland

Jan Cienski says the capital city remains region's best performer

Warsaw's central business district, the largest and most liquid office market in central Europe, is at the heart of the region's commercial property market.

The area dominates by the size of the office market, rents, ease of financing, projects under development and investor interest. "The further you are from Warsaw, the more difficult it is," says Tomasz Trzoslo, the head of the Polish office of Jones Lang LaSalle, the property consultancy.

He adds that investments in central Warsaw usually attract interest from 20-30 funds, those in suburban Warsaw pull in 10-15 funds, while those in secondary Polish cities and other central and eastern European capitals attract 5-10 funds. Southeastern Europe and the Balkans are much further off investors' radar, often attracting only two or three investors, mostly small funds specialising in riskier frontier markets.

Warsaw is the largest office market in the CEE, with almost 4m square metres of existing office space, about a quarter of the stock for the whole region. Last year, 267,000 sq m of office space was completed, about half of the region's completions. Warsaw is the only capital in the area not to have any office schemes postponed and has noted the largest increase in the pipeline of new projects.

The region's largest investment deals were based in Warsaw, including last year's €210m sale of the Warsaw Financial Centre to Allianz Real Estate and Tristan Capital Partners, and the sale of Warsaw's International Business Centre for €148m to German property manager Deka.

The market is being driven by the city's growing role as the region's financial and business hub.

In the early 1990s, the first years of post-communist transformation, Poland was a hyperinflationary mess. Many foreign companies set up bases in Prague and Budapest, attractive cities that had survived the second world war relatively unscathed. Warsaw was, and is, not so appealing.

Poland's size – at 38m people it accounts for about half the CEE – and especially its economic performance have changed calculations. Poland is the only European economy not to have suffered a recession in more than two decades. The economy continued to power ahead after the start of the economic crisis – it has grown by 18.7 per cent during 2008-12. Slovakia is the next best performer, with growth over that period of 10.2 per cent. The EU as a whole saw a slight contraction.

Warsaw is one of the few CEE cities where cranes are a regular feature of the skyline and ambitious building projects such as the 160m-tall Cosmopolitan tower, a mixed retail, office and residential project, are still going ahead.

Its size and the liquidity of its market makes it increasingly attractive for investors. CBRE, the property consultancy, says Warsaw now ranks fifth among European cities as a target for investors, behind London, Munich, Berlin and Paris.

> 'Poland looks quite attractive on a risk-adjusted basis'
> **Anne Kavanagh, Axa Real Estate**

"Poland is no longer thrown into the same bucket as the Czech Republic, Hungary, Romania and Bulgaria," says Adrian Karczewicz, investment director at Echo Investment, a Polish developer and property manager.

Yields in central Warsaw are about 6.25 per cent, lower than in the rest of the region, where they can be 8.5 per cent or higher, but significantly more than in big west European cities. But for investors looking for a better rate of return with little additional risk compared with Paris or Berlin, Warsaw makes a natural choice.

"Poland looks quite attractive on a risk-adjusted basis," says Anne Kavanagh, global head of asset management and transactions for Axa Real Estate.

However, Poland's slowing economy may also hit investor perceptions later this year and into 2014.

"We are competing with London, Paris and Spain," says Maciej Zajdel, the head of the Polish office of IVG, the German property manager. "We are having our five minutes. The news that we are having a slowdown has not yet gotten out widely. That means we still have about 12 months to continue to attract capital before we hit a wall."

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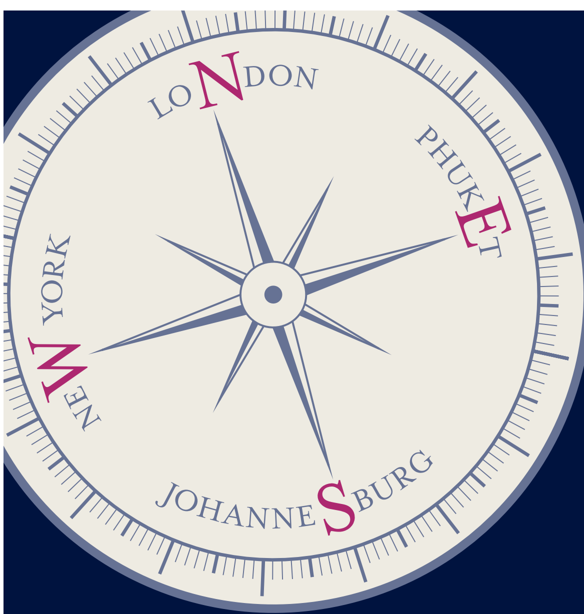

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Loans caution takes toll of developments

Banks

Financial institutions remain skittish about the property market, reports *Jan Cienski*

Central European banks – although they have been doing better in the long-running economic crisis than most of their European equivalents – remain extremely cautious about lending, a factor that is making itself felt across the whole of the property food chain in the region.

"Banks have been largely unscathed compared with their western counterparts but the subsidiaries of western banks and banks that rely on interbank markets have come under pressure," says Ben Habib, chief executive of First Property Group, an investment specialising in central and eastern European commercial property.

There is significant differentiation across countries, with Poland, the Czech Republic and Slovakia showing a willingness to finance real estate investments but on tougher terms than before the crisis.

Banks are much more skittish about property loans, according to a report by KPMG, the consultancy.

It found southern European banks have high levels of impaired property loans, meaning the assets are worth less now than when purchased.

The impairment figures range from 60 per cent for Slovenia to 56 per cent for Romania and 48 per cent for Hungary, while banking in the Czech Republic has 16 per cent and Poland 14 per cent of loan impairments.

"Many of these banks have been burnt by developers," says Lambros Anagnostopoulos, chief executive of Secure Property, a private equity investment company focusing on Ukraine and the Balkans.

"Financing is much more difficult in southern Europe than in Poland but there are banks ready to issue loans for acquisitions," he adds.

Banks are reluctant to finance new developments. When KPMG looked at Hungarian banks it found property investments were their least attractive option.

Hungary last year saw only three office buildings delivered in Budapest, a 74 per cent drop compared with 2011, and equal to only 8 per cent of construction activity in 2009.

Banks are generally unwilling to finance speculative developments and are demanding significant levels of commitment from developers.

Jonathan Tinker, chief executive of Helical Poland, observes that to finance a €150m shopping mall, Europa Centralna, which opened near Gliwice in Poland in March, the developer had to display pre-lease rates of 70-75 per cent, significantly higher than a few years earlier.

Countries such as Slovakia, which are still growing despite the eurozone crisis and have solid banking sectors, are continuing to lend.

Jozef Sikela, head of Slovenska Sporitelna, a subsidiary of Austria's Erste, says his bank had lending growth of 11 per cent last year, and expects a double-digit rise in lending this year.

High ambition: a construction site in Prague, the Czech Republic's capital Alamy

"We can't talk about a credit crunch in Slovakia," Mr Sikela says.

However, as in the rest of the region, lending criteria have become much tougher. To get banks interested, an experienced developer needs to put up at least 30 per cent equity in a project, and show pre-sales of 30 per cent.

"The conditions are pretty steep," admits Mr Sikela.

The caution of banks is felt at the residential end of the market. Poland's Financial Supervision Authority, the banking regulator, has come under government pressure to loosen some of the lending restrictions it imposed after the start of the economic crisis. Steps to encourage lending have not yet yielded results.

In the fourth quarter of last year, the number of new mortgage loans issued by Polish banks fell by 12 per cent compared with the same period in 2011, the seventh quarter in a row marked by falling new loans, according to Open Finance, a financial advisory firm.

One of the reasons is that Polish banks have essentially stopped all new lending denominated in foreign currencies.

Such loans were popular before the crisis because they charged much lower rates than loans denominated in local currency – the same reason they were popular in the Baltics, Hungary and Romania.

However, the steep fall in the value of local currencies after the crisis compared with the euro and Swiss franc showed the danger of foreign exchange lending, both to banks and to customers.

The one area that is still interesting for banks is investment lending for income-producing properties in the best local markets.

CBRE, the property consultancy, reports that in the first quarter of this year investment volumes in central and eastern Europe (including Russia) soared to €2.6bn, the highest first-quarter level since pre-crisis 2008.

Of that figure, Russia accounted for €1.8bn in transactions, while Poland took up €400m and the rest of the region also saw an increase in investment spending.

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Up on the roof: business partners Peter Grundberg, left, and William Clothier take a hands-on approach to restoring and renovating one of their properties

Developers turn to arts for survival

Residential renaissance *Kester Eddy* investigates a cultured response to the housing market collapse

William Clothier, a property developer originally from Oxford, speaks from experience when he says: "We need positive thinking. It's desperately in short supply, understandably, but it's very much needed in Budapest."

He started by buying and renovating decrepit apartments in 2004 using his own cash but he later raised funds for the work.

Then, in 2008, along came the global economic crisis. Hungary, which had a residential market highly leveraged with foreign currency loans, was hit worse than most in the region. The housing market dried up.

Renovation, even low-cost cosmetic projects, became a huge gamble. In the crisis it was not about adding value, "it was more about minimising loss," he says.

We are seated in what he calls "the canteen" of Brody Studio, a late 19th-century housing block 100 metres from Andrassy Avenue, the Hungarian capital's answer to the Champs-Élysées. The furniture is mostly recycled, the walls reveal various layers of ageing paint, the lampshade is a recovered window frame. It feels like a film set for the Beatles' *Magical Mystery Tour*, give or take John Lennon and a psychedelic make-up artist.

The ambience is part of what Mr Clothier terms "creating the wow factor". This is his answer, not only to minimising the loss, but also to achieving some return, albeit delayed, for his investors.

In 2008, and with some 50 flats, about half in need of repair, Mr Clothier and business partner Peter Grundberg, a lawyer, struggled with the question of how to get a return on their properties across the city. Their answer was to combine minimal investment with what they valued – artistic, cultural, intellectual and social content – with what they term "shabby-chic" developments. "We wanted people to say: 'I'm inspired, this is new, this is making me think differently,' when they visited our buildings," Mr Clothier says. The pair began work on a three-storey inner-city building, naming it Brody House, after Brody Sandor Street, where it is located.

Carefully investing their limited sums – for example, using lighting to accentuate positive and otherwise hidden architectural features – they created a stylish mix of bed-and-breakfast combined with an arts and events studio, where cultural happenings from book readings to musical recitals can take place.

"We don't want to give visitors a cheap, cruddy experience. We don't want to compromise on service, like bed linen, but [we have proved] people are happy to visit a classical, if decrepit, building, as long as the plaster doesn't fall on their heads."

Opened in 2009, the Brody House package is typically twice the cut-throat Budapest hotel market rate, where a three-star room can cost just €55. The foundation of a "Brody Club" – to run the increasing number of events – led to the creation of a Brody Studio across town. For now, it is work in progress. Five artists are housed on the ground floor, with the basement set to become a music studio.

"The original Brody just wasn't big enough, so we then started work on the second, which was probably the most decrepit of the lot," he adds.

"This top floor here is reserved for our exhibitions, events, and for our members to eat, meet, and have a sort of semi-private, co-working office space," Mr Clothier says.

The combination is a hit, with demand for event space at a premium. "Will, Peter and their team are catalysing what I like to call a 'mini-renaissance' here. I can't recall the last time I had a dull conversation at Brody. The vibe is superb," says Daniel Kaali, a club member.

The development model is no panacea for the hundreds of crumbling buildings that line the inner quarters of Budapest, the neglect compounded by a stifling condominium law that forces developers to obtain 100 per cent support from tenants before making changes to a building – "a tortuous process", Mr Clothier says.

"We're not going to break any records – this is not [top quality] office space. We've had some evaluations . . . and people say it's a crumbling wreck [but] we are firm believers that the value is as much as the value of the tenants inside it," he says.

Mr Clothier argues the property industry "thinks too much about conventional renovation and numbers and not enough about love and feeling for buildings. People time and again say, I feel good, I want to stay here. That is my reward in all this."

Market value Crisis fallout leads to drop in prices

Home prices tumbled across central Europe when the global economic crisis hit in 2008. In Budapest, average prices for residential property in the fifth district, favoured by foreign investors, had lost 11 per cent in terms of Hungary's forint by 2012.

Values for the same properties in euros dived from €1,676 a square metre in 2008 to €1,348 per sq m last year, a loss of about a fifth, says Attila Dery, head of research at Otthon Centrum, a property agency.

Though not directly comparable, Prague's top residential sector had a more drastic decline of 30 per cent, from €5,000 per sq m in 2008, to nearer €3,500 now, says Roger Dunlop, chief executive of Avestus, a regional property developer.

Unlike Budapest, Prague is recovering. Mr Dunlop says increases of 5 per cent a year are likely. Mid-market properties, where prices fell below €2,000 per sq m, are also rising.

The strong Polish economy has meant prime Warsaw residential properties have largely preserved value since 2008, says Mariusz Frackiewicz, head of Avestus in the Polish capital. "One would be paying between €4,000-6,000 per sq m for prime location and quality in Warsaw central," he says.

Outside the central district, new stock over the past four years has led to a fall in prices, with the average transaction price in Warsaw standing at about €1,700 a sq m in the popular segment.

"I do not think the Polish residential market is clear of danger yet," Mr Frackiewicz says.

Kester Eddy

On FT.com »

Lifetime award

Brian Patterson, of AIG Lincoln, wins at the Central and Eastern European Real Estate Quality Awards

Czechs reap benefits of rival's slowing economy

Investment

The republic has stepped into the spotlight, reports *Katka Krosnar*

In recent years Poland has attracted most of the commercial property investment in central Europe, accounting for more than 75 per cent of the total volume in some years. This is partly because of the size of the market compared with its counterparts and its success at avoiding recession.

Poland has become a core investment market for some western European property funds.

Over the past few months, however, there has been a shift, with the Czech Republic gaining popularity as Poland's market becomes static and concerns grow that some sections of the Polish property market may have overheated, says James Chapman, a partner at Cushman & Wakefield in Prague.

The total investment volume in the Czech market is expected to double this year compared with 2012 and will reach €1bn, according to Cushman & Wakefield's statistics. While total investment in central Europe's property is forecast to rise this year, Poland's share is expected to fall slightly, from €2.8bn to €2.5bn. Hungary is expected to see about €300m of investment while Slovakia should receive some €140m, less than elsewhere but a big improvement on last year's mere €17m.

"The current development in Prague of four city centre projects that had not been pre-leased before the launch of construction is an important indication of current confidence in the market," says Omar Sattar, managing director at property brokerage Colliers International in Prague.

After a sluggish 2012, caused by lingering fears about the eurozone crisis and uncertainty after the closure of some German open-ended funds, commercial property is expected to pick up significantly in 2013, with several large office transactions set to close in the first half.

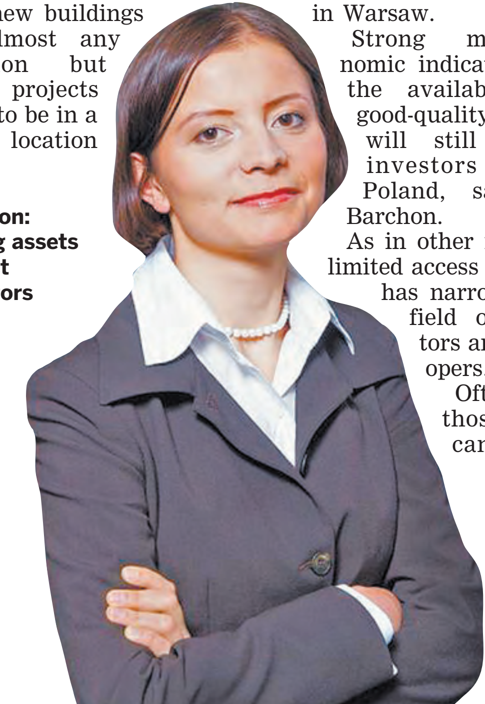
The Czech Republic has always been popular with international investors, who consider it a stable market and a "nice place to do business", adds Mr Chapman.

One key to its popularity is a dynamic capital city, in which many wealthy people are making property investments, says Mr Chapman. According to Colliers, Prague accounted for almost half of the value of domestic transactions in 2012.

For example, CPI, the Czech investor, acquired 18 retail properties in 2012, while CTP, a Czech Republic-based business park developer, bought Belgium company WDP's Czech portfolio and the Honeywell facility in Brno.

While western Europeans, particularly the Germans and UK-managed funds, continue to be core investors, the region has attracted money from Qatar, South Korea, the US and Canada.

Investors have focused on prime assets since the crisis. At the 2007 peak, many were happy to buy new buildings in almost any location but now projects have to be in a good location or be top quality to attract investment.



Kinga Barchon: strong assets attract investors

In recent months there has been a noticeable shift, with investors showing interest in higher-risk assets, such as those needing reconstruction, says Kinga Barchon, leader of the property team at PwC in Warsaw.

Strong macroeconomic indicators and the availability of good-quality assets will still attract investors to Poland, says Ms Barchon.

As in other markets, limited access to credit has narrowed the field of investors and developers.

Often only those who can fund early stage construction themselves, and find credit later, can start projects that are not pre-leased, Mr Sattar of Colliers says.

Office developments accounted for 61 per cent of the total value of investment transactions in the Czech Republic and almost 40 per cent in Poland.

These have focused mainly on capital cities, accounting for 90 per cent or more of commercial property investment. In the first three months of this year, some €646m was invested in office developments, with significant transactions including the purchase of New City in Warsaw by Hines, which has its base in Texas.

Ms Barchon says Polish cities Wroclaw, Krakow, Gdansk and Poznan are attracting a lot of developer interest.

However, residential property investment in Poland is expected to decline following the end of government support for people buying smaller apartments.

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