

An Investigation into the Process of Change in Property Development Industry in Central Europe post 1989

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The rapid political and economic change in former socialist countries in Eastern and Central Europe have fundamentally transformed the real estate market. This has been as a result of changes in land and ownership laws creating the necessary conditions for the establishment of a free real estate market. The transformation process has required a massive reallocation of resources from state-owned enterprises to private sector ownership.

Markets are structured forums for the exchange of goods and services: in the case of property market, for the exchange of legal rights in land and buildings (Rydin et al 1990). Many factors influence the structure of national property markets: attitude of land owners, taxation systems, planning policy, property law, to name but a few. Thus the development of a real estate market and real estate development industry cannot be interpreted without analyzing government-led reforms.

This research has focused on the institutional changes that have brought about the necessary conditions for the operation of a free real estate market. These include the role of privatization process and liberalization of the markets. Furthermore, the research has examined the nature of the involvement of foreign firms in the development of real estate markets in Poland, Hungary, and the Czech Republic. This has been achieved by conducting a survey of 60 companies operating in the market, as well as consultation with decision-makers and authoritative real estate experts. It is argued that the establishment of the real estate market has undergone three distinct phases of development.

The first phase has been the result of privatization of some state assets and restitution of property to their former owners. The second phase has been the impact of the entry of foreign firms and their demand for property with a significant impact on real estate prices. The third phase has been the consolidation of the market and contribution of indigenous firms in all aspects of real estate in these countries.

Foreign firms have played an important role in the transfer of know-how in terms of investment, development, management, and professional services by employing and training local personnel. Indigenous real estate firms have developed a high level of competence in aspects of the real estate industry and are increasingly playing a role in the market. However, there is still room for further professionalism in the development and investment sectors. The development of indigenous investment institutions is largely dependent on the development of the overall economy. Of the three countries under study, the Czech Republic has developed faster than Hungary and Poland. Foreign firms who have been mainly involved in the provision of professional services are gradually replacing expatriate personnel by highly skilled local personnel, but retaining key management posts. This is far more cost effective in the long term.

In terms of potential opportunity for foreign investment in real estate in these markets, evidence suggests that there still remain good prospects, but with more stable rates of returns. However, operation in these markets requires a high degree of familiarity with the national socio-political and cultural norms. Of the three countries, the Czech Republic is the most stable politically but is a small market. Poland has suffered from lack of political stability but offers the most potential as it has the largest real estate market. Hungary suffers from both economic and political instability with a nearly saturated real estate market.