

Tough conditions but a stunning city

Prague's beauty belies a complex property market, as Robert Anderson has found

Over the past year Prague has experienced a British invasion, not just of stag parties lured by cheap beer and girls, but also of property buyers seeking to profit from the expected rise in prices after Czech entry into the European Union.

"We're swamped," says Jan Grozdanovic, partner at the Prague office of Seddons, the British law practice. "Every day we are instructed or a potential client shows serious interest."

Some buyers have just flown to Prague on a cheap EasyJet flight and think it would be romantic – and practical – to spend a few weeks every year in one of the most beautiful capital cities in Europe. Others buy new apartments in Prague through UK property investment companies without even visiting the city.

However, potential buyers have to be more selective now than a few years ago if they want to make a reason-

Foreigners used to invest in apartments in the centre and Vinohrady, and in villas in the smart Dejvice suburb. Now they are having to look elsewhere for property with better investment potential. Hanex recommends as up-and-coming districts Karlín, a flood-damaged former industrial area, Zizkov, bordering Vinohrady to the north, and Smichov, south of Mala Strana. To find an apartment, many British buyers take the easy route and acquire apartments in new developments. If instead you decide to look for something with more character at a better price, you will need an English-speaking real estate agent and lots of patience, as I can confirm after more than a year of searching.

"Anything that is relatively good quality is overpriced," says Hanecak. "It is supply and demand."

We wanted to find a moderately priced, unrenovated

for at least three years and probably five.

Moreover, given that it often takes six months for property transfers to be certified by the land registry, buyers can have a long nail-biting wait until the apartment is legally theirs.

Potential buyers should also not count on making a fortune letting out their properties. The rental market at the top end is very soft as expatriate workers are replaced by locals and the supply of renovated apartments constantly rises.

Rents fell by a fifth last year, according to local estate agents Hanex, and many apartments still stand empty. Holiday lets can be a good alternative, but only if your property is central.

Finally, buyers should be aware of the tax liability involved in selling Czech property. If you cannot find someone to buy the company holding your property when you sell, your company will have to pay 3 per cent transfer tax as well as 28 per cent corporate tax on the profit. If you then want to wind up your company, this costs another £4,000.

In short, Prague is a medium to long-term investment location, not a place to make a quick buck. Nevertheless it remains a beautiful city to visit while you wait for your investment return to come in.

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able profit on their investment. Interest from foreigners – who make up 60 per cent of buyers at the top end, according to estate agents Knight Frank – has pushed prices in tourist zones like Mala Strana to stratospheric levels.

Prague prices used to rise by about 10 per cent a year, according to Frank Hanecak of real estate agency Hanex, but in 2002 they shot up by 14 per cent and last year by a UK-style 20 per cent.

Good quality two-bedroom apartments in Art Nouveau mansion blocks in leafy Vinohrady, the Kensington of Prague, now cost around £125,000. Not much to a British buyer maybe, but a fortune in a city where the average salary is less than £5,000 a year.

Art Nouveau apartment that we could renovate ourselves. But most of the apartments we were shown (until we refused to see any more) were identikit new loft conversions by Italian developers. The others were unrenovated but also lacked any of the period features we wanted. Eventually we settled for one that had already been renovated.

Even when you eventually find your dream apartment, transactions can be very tricky. As a foreigner, you are only allowed to hold property if you make Prague your primary residence.

Otherwise, you will first have to buy an off-the-shelf company from your lawyers at a cost of £1,000 and up. This requirement will not change after Czech accession

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Mansion living, Vinohrady-style