



Frank Hanečák, HANEX GROUP s.r.o

ADVISER

This month's guest expert is the owner and managing director of HANEX GROUP s.r.o. Hanečák is a veteran of 22 years in the North American real estate market, where he was a broker with Re/Max in Toronto, Canada. His company in Prague is involved in leasing, rentals and sales, and provides assistance with research, development, marketing and management.

What effect will the coming changes in VAT rates have on real estate investment and sales?

Assuming they are all enacted, the increases break down into a number of categories:

1) Overall: Real estate leases, including those on unfurnished buildings, will be subject to the 22 percent VAT rate. Other related items and services subject to the full VAT rate include real estate services, legal services, accounting, consulting, tax advisory, telecommunications services, market research and data processing. Some tenants, such as financial institutions, which are restricted in their ability to recover VAT, will be affected.

2) Real estate sales: As of May 1, the rate for the sale of commercial buildings, if not exempt, will increase from 5 to 22 percent. This increase does not apply to residential property.

3) Construction services: As of May 1, the rate on most construction services will be increased to 22 percent. This increase also applies to construction services related to residential properties.

4) Construction parcels: Unless the property is specifically for residential construction, the applicable VAT rate of 22 percent will apply to the transfer of construction land.

5) Real estate transfer tax: As of January 1, 2004, this has decreased from 5 to 3 percent for most real estate transactions.

All these changes will affect the way people look at real estate

deals and the bottom line.

Overall, however, the news is not all bad. Lowering the real estate transfer tax by 2 percent means substantial savings.

In most cases, if we add up all the VAT increases for services and deduct the savings, the seller is still ahead of the game. This will not be always be true for buyers or tenants.

Foreign investors are increasingly interested in Prague real estate. How will this affect the market and what does it mean for local investors?

The international investor is interested mainly in the center of the city and other select locations. This has already increased the prices in some parts of Prague 1, 2 and 6 out of reach of the average Czech. Overall, real estate prices in Prague have increased faster than average earnings, which means problems for the local buyer with average earning power.

On the other hand, it has brought a number of new developers and projects into the local market. This will increase the supply of units on the market and offer a better selection of locations. Even the quality of materials and workmanship may improve with the competition.

For a number of people, Prague 8-Karlín and Prague 3-Žižkov may be the next big investment opportunities.

What are the criteria to keep in mind when making a real estate investment in the Czech

Republic? Location is obvious, but what other factors should a smart buyer look for?

Any international investor has to overcome a few administrative hurdles prior to buying property in the Czech Republic. Buyers should also take into consideration the increase in prices of properties over the last year, and the new VAT increases implemented for 2004.

After this is taken into account, the big question becomes: Is the price of the property the investor is considering going to increase in value? And further, how much will the increase be, and how fast? In summary, what will be the final return on investment?

There are still lots of well-priced properties in the large urban centers.

But any investor looking to buy property to rent should bear in mind that most Czechs are able or willing to pay only between 3,000 and 12,000 Kč (\$115 and \$462) in rent per month. Foreigners or their companies will pay higher amounts, but the prices are lower and lower every year, with a number of places staying empty for months.

Still, real estate in this area remains a good investment. At the end of the day, buyers should bear in mind: "The heart of Europe is Prague."

Got a question for our real estate adviser? E-mail it to realestate@praguepost.com