Keywords: housing market, real estate market, housing development, commercial real estate, FDI, economic incentives.

Abstract:

The paper deals with the development of the real estate markets in the Visegrad countries with the emphasis on Slovakia after the year 1990. The characteristic features of the period were the massive privatization including the bank institutions, introduction of the important institutional changes, and the creation of the prerequisites for the proper functioning of the real estate markets.

The important impulses for the development of the real estate markets were the substantial foreign direct investments in Visegrad countries, implementation of radical economic reforms and European Union enlargement. The impact of these changes is shown in more detail in commercial and housing property areas.

At the end of the paper the changes of the real estate markets in Visegrad countries are summarized and future tendencies briefly outlined.
1. Introduction

The four Visegrad (V4) countries – the Czech Republic, Hungary, the Slovak Republic and Poland - situated in the Central Europe, have been transforming their economies during the last 15 years which had the important consequences for the emergence and maturing of their real estate markets.

The real estate markets are the markets that encompass all transactions, which involve dealings in rights or interests in land and buildings. The activities at the real estate markets are closely related to capital markets that provide the long term funds for the development and refurbishment of buildings. At the beginning of the transformation the capital markets in the western sense of the world did not existed at V4 countries, the rights and interests in land have been poorly defined in the legislation.

The transformation of the banking sector, the entrance of the foreign capital into the thrift institutions in V4 countries enabled to develop the capital markets as well as the new product portfolios and augmented accessibility of credit financing.

Moreover during the transformation period the governments of V4 countries introduced important legislative changes in the business code, tax legislation, registration of property, territorial and municipal management, etc., which induced the substantial growth of the entrepreneurial activities in the real estate sector, and have attracted the foreign direct investments into V4 economies as well as to the real estate sector.

The development of market institutions in V4 countries enabled also to reduce the real estate investment risks in the Central and Eastern European countries. The process was albeit gradual and more substantial investment can be observed especially starting from second half of Nineties of the last century.

The development of new institutional structures and the legislation caused the growth of interest of the foreign investors to allocate their money in these countries. In their decisions they are taking into the account the favorable geographic position, low labor costs and high quality of labor force. The foreign investments also created the higher demand on the new development, and that had the impact on the growing number of transactions in the real estate markets both for the older premises and the new buildings. One of the catalysts of the real estate markets were the

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1 The Czech Republic, Hungary, Poland and Slovakia are referred to as the Visegrad countries after a small Hungarian town close to Slovak border where an agreement on mutual cooperation among these countries was signed at the beginning of the 1990s.
substantial investments into the automobile sector (assembly plants and the subcontractors) in the whole region.

In developed market economies, the function of the real estate market in allocating and reallocating land resources is very important contribution to economic prosperity (Keith, S., Heywood, M., Adlington, G., Perrotta, L., and Munro-Faure, P., 2000). The market is the means of access to real estate and tends to ensure that there is a range of opportunity and choice in terms, for example, of location, types of premises, tenures, and terms and conditions for occupancy across economic sectors. Thus it has the relationship to productive activities, construction sector, labor mobility, national economy, etc. Low financial affordability of the office, industrial, inventory and commercial real estate and high rents discourage the investors from making the business in the certain localities, and it reduces its competitiveness resulting from excessive costs.

Since the real estate sector is closely linked to the functioning of the national economy, the disproportionate development of the real-estate sector is important risk factor for the development of the financial sector and the economy as the whole.

The globalization of the financial markets, the new financial products, the computerization tightened the links between the financial and real-estate sectors. It practically means that some segments of the real estate markets are not any more independent, but they are closely associated to global financial markets. That also means that the financial funds are relatively easily available for the new real-estate projects in the countries with the reliable institutional environments and mature real-estate markets. At the same time this may be the source of the serious risks. Excessive offer of the financial funds on the real estate markets leads in many cases to overbuilding and the financial crises (such crises had taken place for instance in the Southeastern Asia in nineties). Removal of barriers to capital flow, increasing information, IT development and liberalism in financial markets over the last decades has made it easier and more attractive to diversify internationally with global investment strategies frequently seeking to target the countries in different phases of the economic cycle.

For developed countries it is characteristic that the real estate sector is capable to provide the reliable information for the institutional investors about the real estate yields, risks, and about the correlation between the real estate yields in relationship to other asset classes taking into account the inflation. In such an environment are then institutional investors more willing to invest their money into the development projects.

Real estate markets in CEEC countries and in Slovakia are gradually evolving. Although they existed before World War 2, with abolishment of the private property, they became
marginal, and mostly considered being the part of the shadow economy, with very limited
transactions that were partly illegal.

The emergence of the real estate and property markets in CEEC and in V4 countries in
particular necessitated the correct operation of elementary factors, such as guaranteed property
rights, regulated ownership relations, freedom of trading, efficient system to register property
right, use of property rights as the collateral, and improved access to capital. In addition it was
necessary to educate a cadre of professionals providing services to the market players.

The changes in CEEC countries have stimulated substantial levels of foreign direct
investment (FDI) inflow. The great part of this investment has gone to purchase of state
enterprises, joint ventures and the purchase of real assets with the impact on real estate markets.
Cities are places where new trends in thinking, technologies are concentrated. In major cities the
dynamic social development is going on. The important aspect of the globalization is that it
centrates the command and control function in a small number of metropolitan areas. Such
areas attract transnational corporations, international organizations and important events as well
as real estate developers and investors (Adair, A., Berry, J., McGreal, S., Sykora, L., Parsa, A.G.
and Redding, B.) and that is reflected in the concentration of prime quality real estate.

The transition to information economy is changing relative importance of cities by
creating opportunities and challenges to cities for growth and prosperity, but also increases their
vulnerabilities. To attract the flow of FDI, the cities must offer a variety of external economies of
scope and scale to existing or potential business.

With globalization, cities in central Europe are performing the gateway functions. Such
cities as Prague, Warsaw and Budapest became the major entry points for foreign companies
seeking to expand their operations. The growing attraction of investment flows to these cities is
strongly influenced by the comparative advantage of city markets. Lowering national barriers,
developing the global networks and interregional alliances is a great challenge for the cities of
former command economies.

2. Visegrad countries - history and initial conditions and macroeconomic results

The Visegrad countries share many similarities. Visegrad countries also displayed
important differences in their initial conditions, the transition paths they chose to pursue, and the
resulting economic developments.
In May, 2004 10 „new European“ countries joined the EU – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The population of the EU increased by a fifth as a result, but economic output grew by only 5%.

The largest V4 country, Poland, has the population of almost 40 million. The Czech Republic, Hungary and the Slovak Republic are in the 5-10 million (see Table 1). The new accession countries brought with them a diversity of housing systems and standards.

Since this is a wide-ranging issue, we focused mainly on question of development of real estate market from the view of commercial and housing properties, the influence of foreign investments and the tax reform with emphasis on the Slovak Republic.

Before 1918, the Czech Lands\textsuperscript{2}, Slovakia, and Hungary were all parts of the Austrian-Hungarian Monarchy, whereas Poland was divided between Austria-Hungary, Russia and Germany. After 1918, they became three independent countries – Czechoslovakia, Hungary, and Poland (although their territorial boundaries were somewhat different from those today, dramatically so in the case of Poland). As of 1st January 1993, Czechoslovakia broke up into the Czech Republic and Slovakia.

All four Visegrad countries spent approximately equally long period under the communist regimes 41-42 years and were among the latest entrants to the Communist Block. Hence, by the time communism was finally dismantled in 1989, a tradition of and a familiarity with the market economy was still present among the population at large. In contrast, only Czechoslovakia could build on a tradition of a democratic regime in the inter-war period, which may have had implications for the post-communist political developments, in particular in the Czech Republic.

The experience of Czechoslovakia, Hungary and Poland under communism started to diverge significantly during the 1970s and 1980s, with Czechoslovakia which pursued an orthodox version of the socialist system, while Hungary and Poland initiated partial reforms. In particular, Hungary and Poland introduced some aspects of the market economy and partially opened their economies to the outside world\textsuperscript{3}. However, such partial reforms also resulted in high foreign indebtedness, moderate to high inflation, rising government debt, excessively powerful trade unions, etc. Thus, quite surprisingly, at the beginning of the transition process – as a result of the partial market reforms under socialism – the extent of the macroeconomic dis-equilibrium was

\textsuperscript{2} The Czech Lands is the term traditionally used to denote the area that now largely constitutes the Czech Republic – the historical lands of Bohemia and Moravia, and the Southern part of Silesia.

\textsuperscript{3} For example Hungary joined the IMF and the World Bank in 1982, and Poland in 1986. As a historical reminder note that Czechoslovakia and Poland were the founding members of the IMF, however both countries resigned their membership in the first half of the 1950s.
higher in Poland and Hungary than in Czechoslovakia. On the other hand, the partial reforms

Table 1: Geographic information on Visegrad countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Surface in kilometres square</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>88,891</td>
<td>10,230,000</td>
</tr>
<tr>
<td>Hungary</td>
<td>93,050</td>
<td>10,100,000</td>
</tr>
<tr>
<td>Poland</td>
<td>314,400</td>
<td>38,200,000</td>
</tr>
<tr>
<td>Slovakia</td>
<td>49,039</td>
<td>5,380,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>565,630</strong></td>
<td><strong>63,910,000</strong></td>
</tr>
</tbody>
</table>

made Hungarian and Polish companies more exposed to Western competition and/or partners and thus better prepared for the eventual introduction of the market environment.

Another important difference between the individual Visegrad countries stems from their pre-socialist economic development. In contrast to Hungary, Poland, and Slovakia, the Czech Lands were industrialized already during the second half of the 19th century and the first half of the 20th century. The industrialization in Poland, Hungary, and especially Slovakia, on the other hand, proceeded to a large extent under socialism. Hence, the Czech industry arose in response to market incentives and was traditionally oriented towards economic relations with Western Europe. In contrast, the industries of Slovakia, Hungary and Poland were conceived specifically with the objective of economic integration with the former Soviet Union and the other communist countries and according to the requirements of socialist division of labor. Slovakia is a particular case in point, as much of its industry stems from the post-war period. In addition, it had an asymmetric share of Czechoslovakia’s military industry – for strategic reasons, as it was further from the NATO borders. Therefore, when in the early 1990s the Visegrad countries opened to world markets and reoriented their external economic relations towards the West, this difference in industrial traditions to some extent aggravated the severity of the output fall, especially in Slovakia.

The Visegrad countries - Slovakia, Czech Republic, Poland and Hungary - cover the large part of the Central Europe and are inhabited by the numerous well qualified population. The details on surface and population of the countries are shown on. Formerly these countries were

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4 One reservation needs to be raised here. It is sometimes argued, as in Kolodko (2000, p.16) that ‘the more the economic and financial mechanism of the centrally planned economy was reformed, the shorter was the introduction of the critical mass of new market oriented arrangements.’ This may seem to be true if one takes into consideration all the twenty-eight or so transition economies, but if one takes into consideration only the Visegrad countries it is difficult to accept this argument. For example, the non - reform Czech Republic recovered faster from the transition recession than the reform Hungary.
the part of the Soviet block, and in last years their economies has undergone the profound changes. The latest macroeconomic development is shown on indicators in Table 2.

Table 2: Macroeconomic overview by Country, Indicator and Year

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>3.9</td>
<td>2.6</td>
<td>1.5</td>
<td>3.2</td>
<td>4.4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate</td>
<td>8.7</td>
<td>8</td>
<td>7.3</td>
<td>7.8</td>
<td>8.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>5.2</td>
<td>3.8</td>
<td>3.5</td>
<td>2.9</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate</td>
<td>6.3</td>
<td>5.6</td>
<td>5.6</td>
<td>5.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Poland</td>
<td>4</td>
<td>1</td>
<td>1.4</td>
<td>3.8</td>
<td>5.4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate</td>
<td>16.4</td>
<td>18.5</td>
<td>19.8</td>
<td>19.2</td>
<td>18.8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2</td>
<td>3.8</td>
<td>4.6</td>
<td>4.5</td>
<td>5.5</td>
<td>4.9</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate</td>
<td>18.7</td>
<td>19.4</td>
<td>18.7</td>
<td>17.5</td>
<td>18</td>
</tr>
</tbody>
</table>

All Visegrad countries were accepted into the European Union. The development of their mutual economic relationships may help to achieve this end more quickly, because in such a way the Visegrad countries may prove their ability to integrate themselves into the larger wholes, which can help to strengthen their economies. This is quite important for the European Union, which has the interest to enlarge itself not at the expense of the loss of its competitiveness. The inclusion of the economically weak countries may weaken the European Union in the world scale.

The political and economic history of Visegrad countries is in many ways similar, but there are also important differences. Poland and Hungary have the long tradition of economic reforms which started many years before the fall of Communism.

In 2004 there were many radical reforms adopted in Slovakia. (e.g. structural and fiscal reforms, which improved economic environment, namely to more favorable macroeconomic fundaments, better flexibility on labor market, simpler tax system, shortening of time necessary for beginning of doing business), which according the opinion of some analysts put Slovakia among the most reform countries in the world.

Implication of the tax reforms for real estate

Slovakia is also engaged in an ambitious reform process which has a potential to quicken productivity growth, increase the employment rate and accelerate the catching-up to the per capita income levels of more advanced OECD countries. Short-term outcomes are demanding socially and politically, but they stimulate the growth. Human capital enrichment for new entrants through education reform is critical, while intensified re-training for the long-term unemployed is also indispensable. Demand for labor is being stimulated by the planned reductions in employment.
costs in the low end of the market, as well as by the fundamental tax reforms raising the return to enterprise creation and development. Further cuts in social contributions, which remain among the highest among OECD countries, are implemented in practice. The reform of the public spending system, which is already well engaged, should facilitate such additional cuts and help promote a smaller and more effective government. Continuing efforts of fiscal consolidation will improve the macroeconomic policy mix and help maintain supportive monetary conditions in the face of currency appreciation pressures from EU accession, and will help meet the Maastricht nominal convergence rules on a sustainable basis prior to euro area participation. The nominal flexibility of wages and prices should be conserved in order to preserve the competitiveness of the economy, notably of the domestic manufacturing and service firms. At present, Slovakia is focusing on achieving long-term growth, decreasing inflation and restoring microeconomic imbalances, especially the high unemployment rate, to adequate levels.

Slovakia introduced the flat rate tax as the sixth country of Europe together with Ukraine (after Estonia, Lithuania, Latvia, Russia, and Serbia). In 2005 Georgia and Romania did the same thing. The opposition parties in Poland and Czech Republic would like to make the similar reforms. Poland and Hungary have already decreased the corporate rate taxation. Western democracies with much higher corporate taxation (Germany 38.3%, France 34.3%, Netherlands 34.5%, Italy 37%, and UK 30%) blame Slovakia for “tax dumping” and call for “tax harmonization” within the EU. They point out, that new members are able to lower taxes only thanks to the massive regional aid received from richer EU countries. Austria reacted swiftly by reducing its corporate tax rate from 34% to 25% from 2005 even though it intended to go down “only” to 31% originally.

Last seven years where quite hectic in Slovakia. While tackling a series of legislative changes to harmonize its laws with those of the EU, the Slovak parliament has not only adopted a series of EU directives but also earned international acclaim as passing the biggest reform laws of the year. Among them are healthcare reform laws, fiscal decentralization laws, and legislation governing the future operation of the new pension system as of January 1, 2005.

Slovakia has also become one of “Top 10 Reformers” in the world in 2003, according to the World Bank’s (Doing Business, 2004). Slovakia, the leading reformer, and Lithuania and Poland, significantly improved their performance on a range of indicators. Slovakia is considered to be a good model given its recent reforms: cutting the time it takes to start a business in half, reducing the time to recover debt by three-quarters, and easing the hiring of first-time workers (Cushman & Wakefield Healey & Baker, 2004). It must be however also told that in the preceding period in Nineties Slovakia was strongly criticized by the international organization for
the slow pace of the reforms. Privatization, EU membership and low wages have encouraged direct foreign investments. The philosophy behind the tax reform in Slovakia was to substantially simplify the tax system, and to attract more investors into the country.

**The new tax system became effective as of January 2004.** The goal was to create a simple, fair, non-distortive, pro-active, and business friendly system. This should have been achieved through (Golias, P., Kicina, R 2004):

1. **Shifting the tax burden from direct to indirect taxes**: i.e. taxing consumption rather than production. The shift towards the indirect taxes should reduce tax evasion.

2. **Elimination of all exceptions, exemptions and special regimes**.

3. **Introduction of flat tax rate on personal income**: This measure limits the economic disincentives caused by higher taxation of higher income cohorts.

4. **Elimination of tax instruments aimed at achieving non-fiscal goals**: Many of such instruments aimed at providing social policy objectives. However, tax instruments usually address everybody and not only those in need.

5. **Elimination of double taxation of income (such as tax on dividend)**

With effect from January 1, 2004, gift tax and inheritance tax have been abolished. Real estate transfer tax was cut from 6% to 3% and abolished with effect from January 1, 2005. All these taxes presented multiple taxation of the property. Another reason for their abolition was the especially low revenue they generated (gift tax accounted for 0.08%; inheritance tax for 0.04%; and real estate transfer tax for 1.21% of total tax revenue in 2003).

Virtually all tax exemptions are eliminated, whereas the real estate transfer, gift, and inheritance taxes are abolished. The income of basic activities of taxpayers who do not have to goal of producing profit (non profit organizations, incl. NGOs) will be exempt from tax. Their other incomes will be exempt to the amount of SKK 300,000; the amounts above this limit will be taxed at the above rate. The Act retains the Tax Assignment (although the MF initially proposed to cancel it as non systemic). Hence, individuals and legal entities will be allowed to assign 2% (1% before) of the amount of tax paid to a selected legal entity (non profit organization) and community purposes. The new Act also abolished the mechanism of tax incentives that allowed taxpayers to decrease their tax liability in the value of a gift. The new Act is much closer to the international tax law than ever before thanks to its definition and to precision. A marketing year (does not necessarily have to be a calendar year) could be used after the consent from the tax administrator. Besides, depreciation categories have been reduced to 4 (4, 6, 12, 20 years). The abolition of the fifth category should lead to increased investment in real estate. The Parliament
also supported and prolonged the entitlement of beneficiaries to receive tax relief (Volkswagen, Bratislava, U.S. Steel, Kosice) until the end of 2006, in compliance with the EU regulations.

The Slovak Republic is not the only country which undertook this radical change of its tax system. As an example of courageous reforms can be stated New Zealand, Ireland or Estonia; Ireland and New Zealand radically decreased income tax, Estonia established single tax rate and earnings were left in a company, tax was completely canceled. The result is respectable. While in 1996 an average citizen of Slovakia could buy for his income at the parity of purchasing power by 35% more than a citizen of Estonia, in 2001 it was only 12%. Development of economy of Ireland and New Zealand after reforms is often named as economic miracle, characterized by distinctive inflow of investments and high rate of economic progress.

3. Foreign direct investment

The inflows of FDI have important macroeconomic implications for the target countries. In the short run, capital inflows help to stabilize the economy by providing external finance that can be used to cover current account deficits. In turn, this supports exchange rate stability and/or causes exchange-rate appreciation. In the long run, FDI provides an important channel for adoption of new technologies (Altomonte, C. and Resmini, L., 2001). The relative attractiveness of the Visegrad countries was especially pronounced during the early years of transition. This is not surprising, given greater economic and political stability, faster progress in economic reforms, better economic performance, and higher degree of economic development in the Visegrad countries. This advantage of the Visegrad countries dissipated somewhat over time as FDI flows to the other transition countries accelerated. Nevertheless, by 1999, the overall stock of FDI in the Visegrad countries was still approximately one-and-a-half times greater than the total stock of FDI in Bulgaria, Croatia, Estonia, Latvia, Lithuania, Romania, Russia, Slovenia and Ukraine together. FDI inflows to the Visegrad countries accelerated dramatically in 2000 in the wake of several large privatization deals in the Czech Republic, Poland and Slovakia. In case of Slovakia, a further impetus for greater inflows of foreign capital was provided by the recent government change and the resulting greater political stability and better economic prospects. In per capita terms, Hungary and the Czech Republic clearly have been the most attractive destinations for FDI (among the other transition economies, Estonia, Latvia and Slovenia proved similarly attractive for FDI, in contrast, despite sizeable overall inflow, the per capita FDI stock in Russia remained meager as of 1999). Initially the foreign direct investment flowed primarily into food production, textiles and metallurgy, i.e. in sectors which require less investment in technology and employ
low-skilled labor. However, recent FDI flows have been directed into services: banking, telecommunications, real estate, etc. The role of foreign capital in the economies of the Visegrad countries gradually gains importance. For example, foreign firms in Hungary now account for more than one third of employment and more than 70 percent of total exports. Some of the largest firms in the Visegrad countries are under foreign ownership. Examples include Skoda Auto (Volkswagen) in the Czech Republic, and VSZ (U.S. Steel) and Slovnaft (MOL) in Slovakia.

In 2004 the foreign direct investments (FDI) into industrial countries declined distinctively. This decline was more or less balanced which was caused by increased investments into developing countries and countries of Central and Eastern Europe, where inflow of finances reached new records. This increase is a positive one for developing countries, which in this year reached the share in worldwide FDI at a height of 42 %, in comparison with period 2001 to 2003, when this share represented 27 %. With FDI 321 billion USD in 2004, inflow of finances into industrial countries decreased by 16 % in comparison with year 2003. Investments into European Union decreased distinctively from 308 to 165 billion USD. In 2004 the USA beat China with volume of investments 121 billion USD (in year 2003 this volume amounted only 30 billion USD)\(^5\).

Table 3: State of direct foreign investments by countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Business companies</th>
<th>Banking institutions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>mil. USD</td>
<td>%</td>
<td>mil. USD</td>
</tr>
<tr>
<td>Germany</td>
<td>2 593,5</td>
<td>28,9</td>
<td>33,4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1 800,9</td>
<td>20,1</td>
<td>30,0</td>
</tr>
<tr>
<td>Austria</td>
<td>603,7</td>
<td>6,7</td>
<td>923,9</td>
</tr>
<tr>
<td>Italy</td>
<td>150,3</td>
<td>1,7</td>
<td>732,0</td>
</tr>
<tr>
<td>France</td>
<td>781,3</td>
<td>8,7</td>
<td>15,6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>629,9</td>
<td>7,0</td>
<td>53,0</td>
</tr>
<tr>
<td>Hungary</td>
<td>657,0</td>
<td>7,3</td>
<td>59,1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>518,9</td>
<td>5,8</td>
<td>106,0</td>
</tr>
<tr>
<td>USA</td>
<td>395,2</td>
<td>4,4</td>
<td>50,0</td>
</tr>
<tr>
<td>Belgium</td>
<td>143,5</td>
<td>1,6</td>
<td>0,0</td>
</tr>
<tr>
<td>Other countries</td>
<td>697,1</td>
<td>7,8</td>
<td>0,0</td>
</tr>
<tr>
<td>Total FDI</td>
<td>8 971,3</td>
<td>100,0</td>
<td>1 991,0</td>
</tr>
</tbody>
</table>

\(^5\) Source: OSN conference for trade and development (UNCTAD)
However in 2004 foreign investments increased mainly in the Slovak Republic. In comparison with previous year foreign investments increased by 6% to 612 billion USD (approximately 1800 trillion SKK), which means that Slovakia is becoming a serious competitor for neighboring countries in the region in acquiring of investors – in counting of direct foreign investments Slovakia beat Poland already in 2002 and growth of investment was recently faster than in Hungary.

The implication of stabile increase of direct foreign investments in Slovakia are favorable investment circumstances, which features accessibility of qualified manpower, low expenses on work, low tax, strategic location in Europe, as well as industrial tradition. The election in 2002 brought continuity of governance first time in the history of the Slovak Republic and they improved the perception of stability of the Slovak Republic for investors. The country from which the most of foreign capital comes is Germany, while majority of direct foreign investments go to industrial production.

Direct foreign investments (FDI) give information on one of the basic aspects of globalization. The crucial factors for the decision of an investor where to produce his products so may differ according the regions. The most important in the region of Central and Eastern Europe doubtless it is political stability. Another reason why an investor decides to invest in chosen countries can be tax system and administrative restrictions, wages and salaries, work productivity and surely education and skillfulness of potential employees.

Slovakia has prospered extremely well in the statistics of inflow of FDI since 2002, but is mainly because of privatization of state-owned assets. Investments on so-called green fields represent just small part of the whole sum. In spite of this the following years are perceived optimistically.

Slovakia is starting to concentrate car industry, the proof of which is the acquirement of an investment called as an investment of the century – company PSA Citroen Peugeot. Further important investments in this region in last 15 years are mainly in relation to car industry:

- Build-up of car factory Hyundai/Kia (in Slovakia and planned building in the Czech Republic), which can distinctively influence employment of neighboring regions especially by increasing of production in sub-contractor companies, which will come to our country just to assemble their products. Kia has with this its own „rich“experience. When it considered the build-up of the company in Southern Africa they encounter the condition that 75% of components must be bought from domestic producers. The company then was built in neighboring Botswana, the member of Southern African customs union, and it did not apply such a condition. In Botswana
they however assemble spare parts imported from Korea. The investment contracts do not contain purchase from domestic suppliers;

- Production of interior accessories and door systems into cars by American company Johnson Controls, which is induced investment of Kia motors. At 265 work places in the whole world it employs 75 thousand people. Out of them 36 thousand work in Europe in 15 towns in Eastern and Central Europe;

- the form of joint venture of Portuguese company Key plastics Europe Filinto Fernandez and Slovenske elektrotechnicke závody, Ltd. (SEZ);

- German company Visteon, which deals with sub-contracts for car industry decided at the end of 2004 to build a new factory near Nitra in the value of 40 to 50 million EUR. One of the reasons of the investment is also a building of car factory PSA and Hyundai/KIA, to which Visteon plans to deliver interior accessories and air conditioning since 2006.

Coming of investors motivates also the entire environment, which the country offers for enterprise. However analyses warn that coming of investors is not a commonplace but the result of improving of conditions for enterprise and reforms as well as the change of political situation would probably mean reassessment of their positive view of Slovakia. In last period dozens of companies announced their intention to enterprise in Slovakia, they plan to act in different domains of economics and on the whole they plan to invest approximately the same sum as Hyundai/Kia. Entry of car producer Hyundai/Kia is another evidence of the fact that Slovakia experienced inflow of foreign investments of unprecedented extend. Until 1998 due to political reasons investments avoided the country and also in following four years there will be no more massive inflow without privatization. Pro-enterprise environment started to be created in 2000 and 2001, because the government implemented more measures to attract foreign investors to prepare the conditions comparable with neighboring countries which they had to coordinate with the law of European Union. Since 2002 Slovakia is getting to be more frequent object of foreign investors. Behind the previous inflow in amount of 4 billion USD there was mainly selling of state shares in banks and energetic companies. However, the volume of investments per inhabitant stays low. While at the end of 2002 it represented the sum 1433 USD, in the Czech Republic it was even 3861 USD. According to a representative of Symsite Research the volume of announced investments in 2003 - 2004 represents almost 700 million EUR, which is the volume of investment of the car producer Hyundai/Kia. It is positive that generally they are investments of middle amount (in sums of 5 to 50 million EUR), and mostly they do not relate to
4. The role of foreign banks on the real estate markets

The banks in the Central and Eastern European countries (CEEC) have made considerable progress with privatization and consolidation. While state-run banks still hold roughly one-quarter of the market in Poland in 2004, the privatization of the major banks in other countries such as Hungary, the Czech Republic and Slovakia has been largely completed. Many of the large financial institutions in the CEECs are owned by Austrian, French, Italian or German banks so that the assets of foreign banks represent up to 95% of total bank assets, the percentage varying from country to country. The CEEC banking markets generally promise strong growth as a considerable proportion of the population is still undersupplied with banking services. As might be expected, business in the CEECs entails greater risks than business in, say, Western European countries. While loan default risks have decreased in recent years, the proportion of nonperforming loans is still relatively high: for example, in Slovakia 11.5%, the Czech Republic 11% and Slovenia 5.5% (Western European banks: approx. 2.6%). This is one of the reasons why, for years, banks in the Czech Republic and Slovakia have on average registered negative returns. High returns can be achieved in some countries, e.g. Poland: between 1993 and 2001 the average ROE at Polish banks was 12.1% – a figure that was far exceeded by Polish banks with foreign owners (18.5%). Polish banks also operate highly efficiently, with an average cost/income ratio of 56.2%. It is clear, though, that the higher returns in the CEECs have to be seen as a risk premium, as is shown by the fact that the volatility of bank returns in the four largest acceding countries is almost four times as high as that of the banks in the five largest Western European countries (unweighted average in both cases). Thanks to progress with privatization and consolidation, the basic structure of the banking sectors there seems to be more efficient than in some Western European countries, and this has led to very good results at banks in some CEECs. The banks have good prospects of being able to tap the market potential resulting from the still relatively low levels of market penetration. However besides opportunities there are still pronounced risks.

The banking privatization brought the new know-how and consequently the development of the new banking products necessary for the financing of the property market. This process has however taken several years, since the progress in the institutional development was needed and
the time for the market penetration of the new products required. Surely enough the process is far from being finished and it is continuing.

It is interesting to observe the role of the European Bank for Reconstruction and Development (EBRD) in development of the property market in V4 countries. When the EBRD was established in 1991 its purpose was defined “to foster the transition towards open, market-oriented economies and to promote private and entrepreneurial initiative in the countries of central and eastern Europe and the Commonwealth of Independent States committed to and applying the principles of multiparty democracy, pluralism, and market economics.” (EBRD, 2003). The purpose of the bank thus extends also to fostering of the development of the property markets in CEEC countries and V4 in particular, and their integration into the global economy.

The EBRD was not very active in the real estate sector in the early 1990s, however as of 2000, the EBRD had lent roughly USD 378 million directly to the property sector, which in turn leveraged private sector investments or lending from all sources of USD 1,827. Many of the firms and developers being supported with EBRD financing have played a critical role in demonstrating the financial viability of real estate investment in Central Europe, paving the way for a massive influx of foreign investment into the sector.

5. Commercial real estate

Central European countries have seen an unprecedented expansion of their shopping and office facilities in the last several years. This expansion has been overwhelmingly in the form of Western European big box retailers and extremely large shopping and entertainment complexes. While there are exceptions, the majority of these retail centers are larger than 5,000 M2 facilities, with large parking lots facilitating travel by private automobile.

An increasing number of Western European countries are placing tight restrictions on new retail facilities over 5,000 M2, to minimize severe traffic impacts, emissions impacts, and their adverse effects on downtown vitality. Most of these restrictions are specifically targeting out of town shopping centers. Since 1997, Denmark, Norway, and Finland have all made it virtually impossible to build retail facilities over 3,000 M2 outside the central business districts of major cities. Restrictions in England were also recently tightened, following on restrictions in the Netherlands. In Western Germany, new developments of over 1,200 square meters require special permission from the local government and the developer must demonstrate that the project will not have an adverse impact on local retailers, generate local nuisances, and other restrictions.
In Central Europe, by contrast, retail developments over 50,000 M2 are increasingly common. In Budapest alone the total Gross Letable Area (GLA) of shopping malls with a non-food retail element of greater than 5,000 square meters has risen from 15,000 m2 in 1996 to 285,800 in 2000. This has been greater than a 70% annual increase over a period of four years. Large scale retail developments are projected to increase by another 207,000 M2 by 2003, an additional 20% per year increase. (Colliers, 2000) In the Czech Republic, the number of retail stores has more than doubled in the last 9 years, with most of the growth occurring in the last three years. In terms of square meters of retail space per capita, the Czech Republic had 0.3 m2 at the time of the transition, and it had risen to 0.8 last year. It is projected to rise to 1.2 before stabilizing. (Incoma, interview) Colliers predicts there will be another 40-60 hypermarkets in the Czech Republic by 2002, many of them in secondary cities. The Czech Republic already has more than double the European average number of retail stores per 10,000 inhabitants, and a larger number of shopping malls than Italy.

Warsaw faces a similar explosion of hypermarkets. The map below shows the number and location of large retail establishments, virtually all of which have been built since 1997. In the next three years, these retail chains plan to move heavily into secondary cities.

The traffic generated by these malls, and hence a large part of their environmental impact, varies widely depending on a number of factors. While existing research is fairly limited, several conclusions can already be drawn. Size, the availability of public transit, its proximity to residential areas, and the availability of automobile parking tend to determine the level of motor vehicle travel generated by the mall.

Big box retailers today are occupying any location that they can. In Prague and Budapest, many are being built in entirely automobile-dependent greenfield locations, generally at the intersection of ring roads and major intercity highways. The largest concentration by far of this type of mall in Budapest is at the intersection of the M0 motorway and the M1 and M5 motorways just South of the suburban town of Budaors, but the intersection of the M0 and the M3 is another popular location. In Prague, the largest cluster are along the D1 motorway.

6. Housing market - comparative housing standards

For housing system of V4 is typical that they have lower standards of living than are usual in Western Europe, but high hopes of catching up with the rest of the EU. The OECD estimated in 2004 that it would take Hungary 29 years, Poland 37 years and the Slovak Republic 40 years to halve their income gaps with Western Europe, based on their growth rates over the past decade. Even if these countries manage to introduce reforms that speed up their growth rates,
full convergence to Western European standards of living is likely to take two generations or more. Such dynamics provide a background against which to judge housing provision in the new accession countries. Because they have lower living standards and housing is an important element in determining them, it is to be expected that their housing volumes and qualities are far lower than in Western Europe. Dynamically, if it is going to take a very long time for incomes to catch up, it is to be expected that housing will take an equally long time to reach Western European standards as well.

Whilst income levels may be a good indicator of general housing standards, there are several reasons why the gap between housing conditions in the new accession countries can be expected to be closer to those in Western Europe than is the case with incomes. As a basic necessity, expenditure on housing at lower income levels is likely to represent a relatively high proportion of incomes. (In the old centrally planned economies, this expenditure was generally borne by the state in urban areas, so that out-of-pocket costs were usually very low by market standards.) Along with this basic consumption good characteristics, go high levels of national investment on housing. As incomes rise, the share of housing investment in national income then tends to go down, even though the absolute level of expenditure is likely to rise. This predicted broad-brush pattern of high investment is historically observable in the new accession states, though not from the 1990s. Moreover, faster-growing countries also tend to invest proportionately more in housing, because of rising consumption and to meet the needs of expanding workforces in the major growth regions. The characteristic can be seen strongly in such European countries as Greece, Ireland, Portugal and Spain over the past decade. Furthermore, the past histories of Central and Eastern European countries V4 made housing investment especially important within them. Housing played particular roles in CPE frameworks. They tended to build lots of dwellings, especially during the 1970s and 1980s. What was constructed was generally standardized, industrialized-building apartment blocks containing dwellings of limited quality and size. House building became as much a component of the command economy, with five year plan targets to be met, as being aimed at satisfying consumer needs. In addition, housing was built in rural areas and small towns by owners in piecemeal ways, using the available building materials, which were not always the most appropriate or of good quality. The legacy is a rural housing stock that has a relatively high absence of basic amenities and poor build quality. In Poland, overall house building did not manage to keep up with rising household numbers, so that it has faced an absolute shortage of about 1 to 1.5 million dwellings for a long time, despite relatively high building rates during the 1970s and 1980s. The Slovak Republic also faces shortages.
this pre-1990 house building legacy has left unique housing stocks in the V4 of relatively young, but often rundown, homes – with limited internal and neighborhood amenities and poor insulation. Dwellings sizes are also notably smaller than in Western Europe. In the old EU15, dwellings have an average of 4.4 rooms and 84 square meters of living space, whereas in the new V4 members, they have only 3.2 rooms and 58 square meters of living space. In East Germany, around a million of the apartments-in-industrialized-blocks types of dwellings have been abandoned since reunification, but in the new member states they remain central elements of urban housing provision. So, in many of the V4 countries the issue is as much about the quality of the existing stock as its general availability. Moreover, these dwellings are often not physically adaptable for serious upgrading to provide better sizes, nor is it often worthwhile modernizing them. This suggests the need for very high levels of dwelling replacement over the long-term. Within the more southern economies, housing has also been traditionally favored. The built form is obviously different. It usually consists of simply-equipped one or two-storey dwellings, developed by their owners in a piecemeal, haphazard fashion, using traditional or simple concrete frame and block methods. Another contrasting feature of the housing systems of the new EU countries is that the land market traditionally did not play the role it does in most of the old EU15 countries in influencing urban densities and the distribution of housing opportunities over space. The urban structure of CEE cities, consequently, is differentiated far less than further west, and relates more to subtle gradations in social status than to accessibility and urban history. There is also not as much of the costly urban infrastructure in many locations that is regarded as commonplace further west. In Southern Europe, urban forms are also less market-determined as well. Infrastructure provision is again frequently more limited. This is because house building traditionally has depended on family, small-plot land ownership patterns in a context of weak local governments. As the land market takes on a greater role in these countries in the future, given such histories, it is likely that the cities of many of the new accession countries will develop widely decentralized, spread-out urban structures, more in keeping with US models than the planning-induced emphasis on high density and historic city centers more common in Western Europe. Activities will search out the cheaper locations, lower congestion and higher amenities of the fringe without the same strong pull of city centers on them as in the west.

7. Conclusions

Positive development of real estate market within last 15 years was the consequence of breakdown of communism in 1989, besides other things it was the result of low competitiveness
of companies in the countries of CEEC. Administrative methods of management, low rate of innovation, low motivation and lower quality of production including building production led to gradual increase of underdevelopment in Eastern Europe including V4. The fall of the Iron Curtain created conditions for occupation of markets by quality foreign goods because of the removal of trade barriers. Stepwise the new possibilities appeared for placing of foreign investments to exploit cheap and qualified work force. But it is necessary to say that since the beginning of this process there were numerous obstacles. Business environment was unfavorable and therefore it was necessary legislation for its creation. Existing tax environment mostly did not support quick inflow of investments, so it was essential to privatize the major part of economy to create the strong private capital. Stated changes ran within turbulent political fight, which sometimes did not increase confidence of investors. Gradually also domestic private companies arose, they were undercapitalized. Privatization, which started since the beginning of 90s led to gradual real estate market creation on the base of existing properties. Their price or prices of rents were very often high despite the fact that they did not fulfill the conditions imposed on administrative, commercial, stock and industrial spaces from the side of contemporary management. Such space despite of this was rented by foreign and home investors because at that time the competitive landscape was not very intense and enterprise brought high profit. For foreign companies acquiring of existing buildings created launch pad for enterprise in the region, recognizing entrepreneurial chance and its exploitation. Improvement of entrepreneurial environment and legislature in Eastern Europe was quickening also as a result of the fact that the Visegrad countries tried to enter European Union. European Committee defined requirements for transition process in these countries, and at before entering negotiations required fulfillment of Acquis Communataire. The Visegrad countries in effort to quicken their entry to EU quickened transition process and privatization, recovered bank sector, they reformed the Civil Service, reinforced functioning of democratic institutions. In 2004 their effort climaxed by acceptance into EU. Before 2004 they were adopted into many important international institutions as OECD and NATO, and at the same time the credit of stated countries increased for foreign investors, because a risk to invest into these countries as well as into real estate market distinctively decreased. Progressive reforms brought important development in the real estate markets in big cities since the second half of 90s. In the capital cities of the V4 the build-up of first administrative buildings class A runs, since cities as Budapest, Prague and Warsaw are changing into regional centers of multinational companies, who start to control bigger geographical space. The main drivers are mainly growth of purchasing power of inhabitants and companies, development of IT society with sector of services and logic of globalization. Global division of
work means, that there is an outsourcing of production and services into countries with lower salaries, and so call-centers, car production, back-offices of big corporations and bank institutions are outsourced. Processes of outsourcing are supported also because of nearby Vienna, where there are high expenses on work force. E.g. in Vienna many companies changed their owners. Austrian owners were replaced by Anglo-Saxon owners who do not have any problem to outsource their activities into nearby towns as Brno, Bratislava, Gyor, Zagreb, Prague, etc. At the same time there is a global competition within outsourcing. Foreign companies consider where to locate their activities. Within Visegrad towns they compete mutually, but they are threatened by competitors from South East Asia, Southern Africa etc. There is the development of small and middle companies who are becoming sub-suppliers of big corporations or provide for the needs of inhabitants. Pressure to use effective methods of management, economic exploiting of room and growth of image of organizations increases call for administrative room type A in building where they have flexible room, intelligent character, easy connection to information webs which are safely and effectively projected. That is why building of such space grows and it is the source of high return on investment – it creates interest of institutional investors to put their money in such real estates. Logic of investment is ruled by the theory of portfolio which is the theory about how to effectively put money into different assets including immovable property and how to decrease geographical risk of such investments. It is true that there still not enough of such operations.

Increase in purchasing power of inhabitants, development of infrastructure and usage of cars created conditions for the development of shopping centers of western style, which were nearly unknown in the V4 countries before 1990. Existing shopping centers before 1990 had large storage which reflected the reality of shortage economy. The method „just in time“ at supplying the factories and commerce was rarely used. Quick build-up of shopping centers starts chiefly in the second half of 90s in most of the V4 countries with exception of Slovakia, where this development is delayed about 5 years because of unfavorable political environment. Build-up of shopping centers and new manufacturing space induces build-up of vast logistic centers nearby highways and big cities. New logistic space is substantially different from older storage built under socialism, mainly the possibility of using better methods of manipulation and loading of materials, appropriate placing in geographical space, environmental safety and lower energetic losses.

The big problem of the V4 countries is the revitalization of so-called brownfields. Because of transformation of socialistic industry many companies lost their importance, many manufacturing halls and storage do not meet modern requirements of today. The sites where they
stand have many times unsettled ownership and they are polluted from the environmental point of view. For a potent ional investor their purchase brings not small risks and not easily estimated expenses. So investors prefer build-up on so-called greenfields, which does not represent an ideal situation for protection of environment, soil and forest funds. In the last 10 years the V4 countries allocated big areas of greenfields for build-up of industrial parks, logistic premises to attract foreign investors who bring new work places mainly in the regions with high rate of unemployment. To settle the environmental burden in brownfields and to settle relations referring to the rights of property requires long time. At the same time it is necessary to say that in towns where a big demand for sites is, revitalization of brownfields has already started. (e.g. Vankovka in Brno, Pribinova street in Bratislava, etc.).

A serious problem of V4 is to guarantee the new build-up of flats after 1990. Before 1990 the residential build-up was done with very strong government support. Incomes of inhabitants at that time were not sufficient to obtain their own accommodation. Economic transformation at the beginning of 90s led to another decreasing of purchasing power of inhabitants in the V4. Together with it, the original flat and ineffective grants towards accommodation were abolished and there is the effort to lay market-oriented residential policy. Politicians now speak about absolute responsibility of a citizen for his/her accommodation. They later modify this statement and they implemented additional policy and new institutions that should support residential build-up. The stated changes cause that at the beginning of 90s there was a radical decrease in volume of residential built-up and gradually a new accommodation build only those who managed to become rich very quickly. At this time the accessibility of credits was very low, inflation was high and banks required very high interest rates and also collateral which was difficult to fulfill. The situation starts to change substantially at the beginning of 21st century especially because of increase of purchasing power of inhabitants, recovery of banking sector and implementing of mortgages with low interest rates. The competition of building companies also contributes to the growth of residential build-up in the most important economic centers of the V4 countries.

**Future development**

What is necessary to expect: The development of manufacturing, administrative and other activities, another inflow of FDI and build-up of infrastructure which makes less available locations accessible as well as logic of globalization leads to new impulses for development of real estate market. It is necessary to anticipate that this market will be more mature mainly because of clients requirements for properties, development of institutional investments as e.g. development of mutual funds into immovable properties (REIT – real estate investment trusts),
which do not exist yet, next because of impact of another development of banking sector, which is these days nearly owned by foreign bank groups by what the effective transfer of knowledge from industrially developed world into the V4 countries is ensured. Developing impulses for the market will surely come from EU that within regional policy tries on one side to support the competitiveness of Europe by helping regions where are the best conditions for economic growth, on the other side supports the cohesion of Europe by trying to help backward and border regions by build-up of infrastructure, development of education, support of small and middle enterprise. The important factor for the future is the presence of international consultancy agencies specialized in real estate market especially in Prague, Warsaw and Budapest. These agencies provide important support to companies that want to localize in given geographical space and they are trustworthy partners as e.g. Colliers, Cushman&Wakefield etc.

In real estate sector of the V4 countries building boom runs at present, which will probably last several years. With increasing income of inhabitants it is possible that the part of investors will move to another place, speculative investments can bring surplus of investors and followed decline on the market. To this eventuality the developers are not prepared enough.

The strife for the sustainable development in European Union might also become the important factor that will influence the real estate prices after the year 2005. Since January 2006 there will be an important change in EU countries’ legislation in the area of energy performance of buildings. Each new as well as reconstructed building will have to have a certificate of energy performance. A certificate (with validity 10 years) will have to be drawn for each rented or sold residential or non-residential building. The implication of good knowledge of buyers and potential renters, the investors will try to implement into their buildings energy efficient technologies and design, which will result in savings on running cost. We assume that implementation of new legislative rules leading to the increase of energy performance at properties will influence their market value in the future.

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