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Construction for the time period of Industry 4.0

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The world is gradually entering the next stage of growth of labour productivity, this time due to higher automation, robotisation and mass use of advanced technologies. Companies in individual sectors begin to prepare for this fundamental change in order not to lose their competitiveness. We can ask ourselves how this change will affect construction. Of course, for companies, the fundamental question is how to build in the future. However, for the whole economy and the public sector, the key is to know how the transition to Industry 4.0 will affect where to build.

The transition to Industry 4.0 is linked with the commencement of the knowledge economy; more and more added value in the economy is due to innovations and the production itself loses its importance. It implies substantial changes in the labour market; the low-skilled professions, which can be automated, cease to exist and, on the other hand, highly qualified and specialised professions associated with, for example, data analytics or programming of artificial intelligence will emerge. The labour market will soon interfere in where to build.

The point is that know-how-based companies with a high degree of specialisation do significantly better in cities than in suburban regions. In big cities with big labour markets, they can find a specialist with required qualification more easily, they are closer to universities with their graduates and top research and they are also in contact with their competitors. All this creates an environment for creative competitive atmosphere. That is why, we should realise the role of cities as growth poles of the future. For this reason, new attractive job opportunities will arise in urban agglomerations rather than in regional suburbs.

Therefore, the public sector, if interested in future economic growth, should support the development of cities instead of impeding it. If it impedes it, the public sector would only reduce the economic potential of the whole country. Already nowadays, Prague accounts for 25% of the gross domestic product of the whole country, but it is only one of 6,500 Czech municipalities and in the context of a changing economy, the importance of cities will continue to grow.

The development of cities and their economies is naturally connected with new constructions which provide space for new residents, jobs and services. In order to grow, it is necessary that building be easy in cities, which will keep property prices at an acceptably affordable level. The public sector plays a fundamental role here; it sets the regulation of new construction by territorial planning system and permitting new constructions. In this respect, it is worth comparing the Czech Republic and neighbouring Poland. In Poland, they understood the essential impact of new construction licensing, they adjusted their regulations and made the system significantly more efficient. According to the World Bank data, they shortened building permits issuance deadlines from 300 to 150 days. Compared to that, the Czech Republic stagnates at 250 days and from experience, we see rather deterioration. That is also a reason why Poland, in terms of complexity of building permits issuance, ranks 40th, while the Czech Republic is 156th out of all 186 evaluated countries.

The public sector should realise that a more significant influx of people into the cities during the transition to a more advanced economy will occur in our country as well. That is why it should prepare cities for future growth and help them. Transport infrastructure needs to be strengthened – in the environment of our historic cities mainly public transport, urban transport, suburban trains and the possibility to change from cars to public transport at the peripheral agglomerations on the P+R parking lots. Similarly, interconnection via speed railways and their connections to large cross-border cities can also help our regional cities. Cities should make maximum use of their space but, simultaneously, not harm their residential quality – for example by building on brownfield sites and other unused areas.

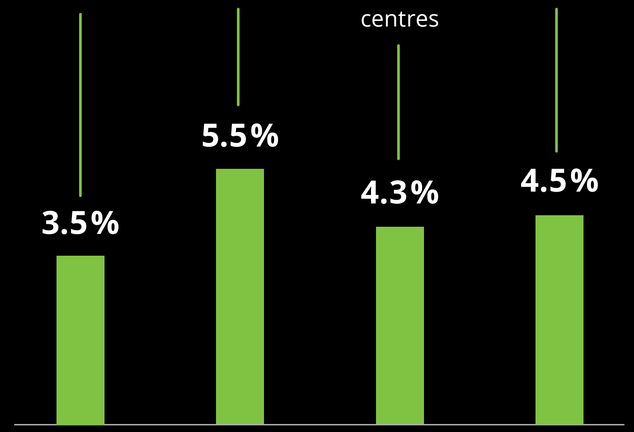
It is necessary to simplify the authorisation of new constructions in attractive urban locations in order to be quick and predictable. Thanks to this simplification, the new construction can react flexibly to demand and substantial price fluctuations will not occur. Ultimately, there is a need for political will, responsibility, vision and determination. When preparing the Dancing House, President Václav Havel was also actively involved. The execution of the Dancing House therefore lasted four years from acquisition to the grand opening. Nowadays, in the same period of time, starting with the EIA application, we will not even receive a building permit. If this does not change, the upcoming prosperity period will miss our country.

Monitoring **Q4 2018**

Macroeconomic Data

GDP **grew by 2.9% year-on-year**	2.0% **was the general unemployment rate**	Industry **saw a year-on-year decrease of (1.4)%**
CZK 33,840 Average **gross** monthly wage in the Czech Republic	Inflation rate reached **2.1%**	Construction production **growth** rate was **3.9%**

Yields – Q4 2018



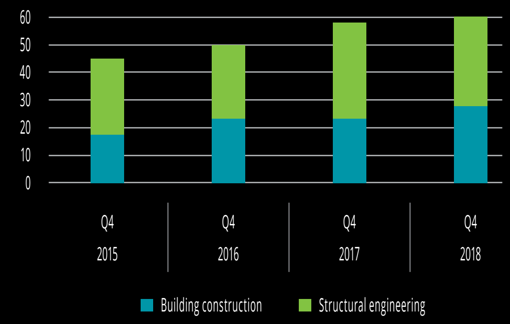
Rents – Q4 2018

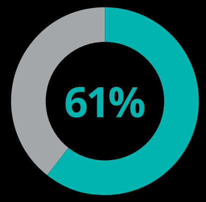
High street	Logistics	Shopping centres	Office
230 €	4.20 €	170 €	22.50 €

Construction

Number of issued construction permits at quarter-end

Volume of new contracts at quarter-end in CZK billion





Portion of the public contracts value for construction companies

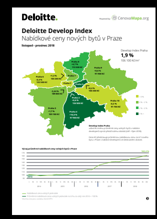
CZK **60.7** bil. Volume of new contracts for construction companies at quarter-end

CZK **2.27** bil. Average mortgage value provided to citizens

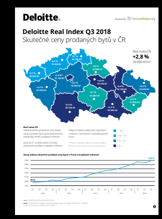
Real Estate

CZK 106,100 /m² Average asking price per square meter of an apartment in new development in Prague

CZK 56,800 /m² Average transaction price per square meter of an apartment in the Czech Republic



Develop index



Real index

Selected transactions

InterContinental Hotel in Prague was acquired by a group of investors comprising R2G, Eduard Kučera and Pavel Baudiš from Best Hotel Properties for approximately EUR 225 million.

The iconic 21,000 m² office building called **CUBE Office Center** was acquired by bpd development from the foreign enterprise Peakside Capital.

Image source: ASPEN.PR

In early 2019, the former Holešovice brewery, currently A7 Office Centre, which was renovated from 2004 and 2008, was purchased by the Conseq investment fund from Revetas Capital.

Image source: A7 Office Center

Jiří Nouza: **“We will all be surprised by the future developments of the construction industry.”**

In early 2019, Jiří Nouza was appointed new President of the Association of Building Entrepreneurs of the Czech Republic (ABE). We were therefore interested in his conception, sentiments on the current situation in construction as well as his prediction concerning the industry’s future developments.

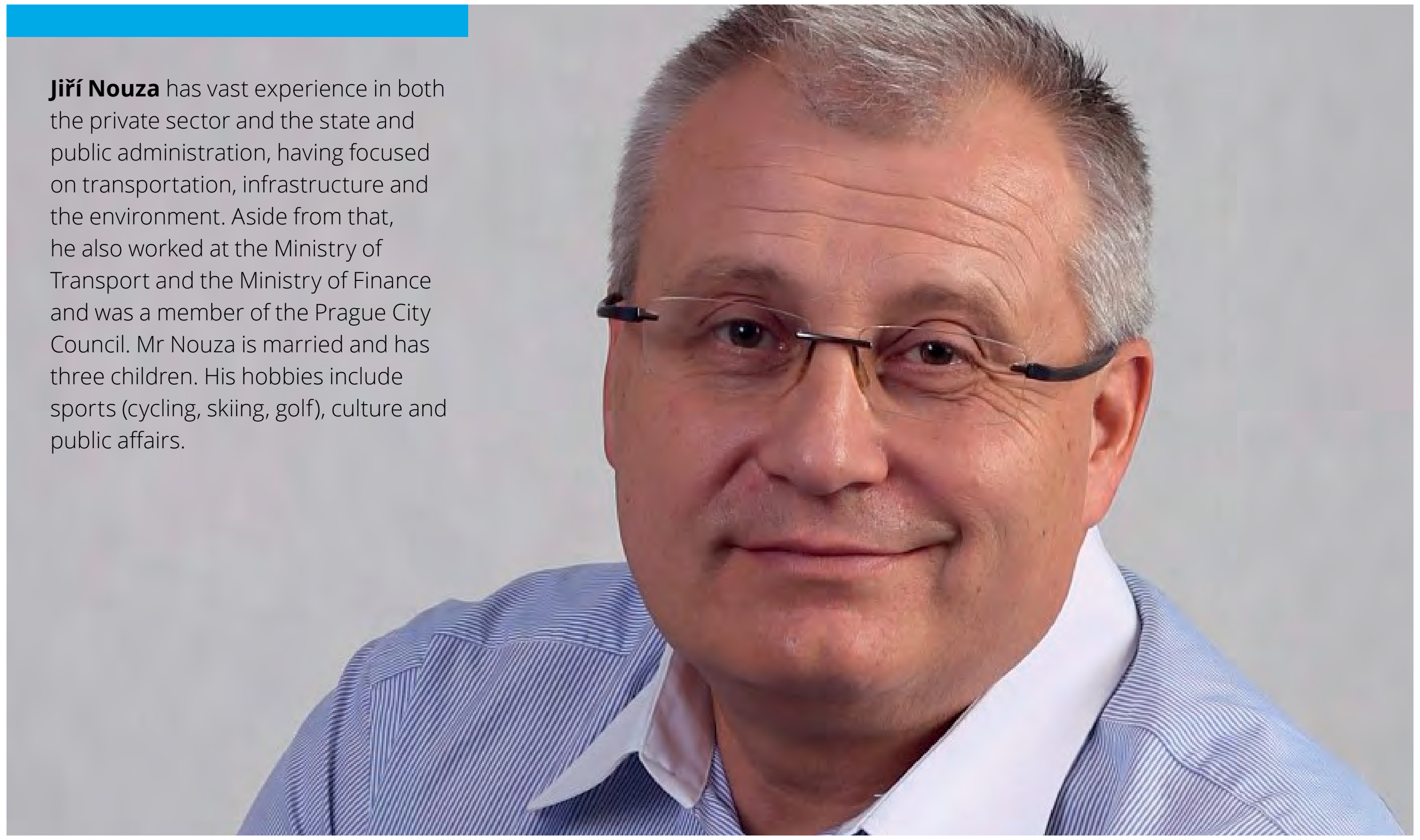
What are your main goals in the position of ABE’s President? On which area is ABE going to focus in strategic terms?
There will be plenty of tasks but generally speaking, particular attention will be given to strengthening ABE’s position as a representative of a major economic industry in respect of the state and public administration. Legislative tasks will relate to the simplification of construction law, the so-called recodification, and resolving the issue of affordable housing. In both cases, ABE is actively involved in the respective task forces addressing the matters. I will certainly seek to expand the portfolio of ABE’s members as it currently lacks, for example, investors/developers and project companies, which I consider construction entities. We will also have to handle the situation of apprentice schools. In short, there are indeed numerous challenges and tasks ahead.

In your new position, you will not be able to avoid dealings with politicians. In this respect, do you consider your political experience and contacts an asset?
Yes, I do consider my experience and contacts an added value for the position. It needs to be said that not only will I have to deal with politicians but also that it will be one of the cornerstones of my job. I have mentioned legislation and affordable housing in my previous answer. These topics have a highly-political character, which is why you need to debate them with politicians. These matters cannot be resolved independently by the private sector.

To what extent is the construction production in the Czech Republic affected by wage growth and the lack of manpower and construction materials? What are your future outlooks as to the future development of those factors?
Of course, whatever shortage, of either manpower or construction material, necessarily entails price pressures. The lack of manpower causes wage growth and a deficiency in construction material increases the prices thereof, which is inevitably demonstrated as a pressure on increasing final supplier prices. I do not want to make any future predictions; however, in comparison with anticipated prices, the current supplier price level is actually at approximately 96–97% for transport structures and 103% for civil construction. We will see how the situation will develop in 2019.

Is it possible to expect an influx of new labour force and missing professions into the construction market in the foreseeable future?
Despite being an optimist, in this context I must say, unfortunately, that I do not expect any improvements. Figuratively speaking, I have to grasp the nettle and admit that the interest in apprentice education and construction occupations as such is at a minimum. We may just dream about “importing” the missing labour force, considering the complexity of the process. Not to speak of what will happen when Germany will open its labour market to manpower from non-EU countries, such as Ukraine and other post-Soviet states.

What do you consider the main innovative trends in construction and development at present and in the future?
I think that we all will be surprised by the future developments of the construction industry. Digitalisation and robotisation



Jiří Nouza has vast experience in both the private sector and the state and public administration, having focused on transportation, infrastructure and the environment. Aside from that, he also worked at the Ministry of Transport and the Ministry of Finance and was a member of the Prague City Council. Mr Nouza is married and has three children. His hobbies include sports (cycling, skiing, golf), culture and public affairs.

will have a significant role – not only with regard to structure planning as we have already used this technology in this area, but particularly in the construction process as such. Nevertheless, I do not dare to predict the pace of such development.

In December 2018, the construction of the D1 motorway saw some issues in the Vysočina region when a consortium of construction enterprises withdrew from a contract with ŘSD (Roadway and Motorway Directorate) as a consequence of construction delays. This consortium, which also included foreign companies, won the tender predominantly due to the low offer price. How is it possible to prevent the occurrence of similar situations in constructing key infrastructure in the future?
Public investors have to find the courage not to set the lowest price as the main criterion to comply with statutory requirements; instead, the optimum price should be of key significance. The methodology for such an approach is available for use. Attention should also be given to the staffing of associations, or consortiums if you wish, participating in those tenders. As far as I know, one of the tenderers was from Italy. So far, I have never seen an Italian workman building a motorway on the Czech Republic.

As a Deputy Mayor, you were responsible for the completion of the Blanka tunnel complex. In your opinion, what are other public structures that Prague necessarily needs and cannot do without in the long-term?
In the area of public transportation, it is certainly the construction of Metro D line. Prague should commence intense negotiations with SŽDC (Railway Infrastructure Administration), not only as regards expanding the railway bridge at Výtoň to include three railway lines but also to build the so-called New Connection 2. I believe that the Prague Institute of Planning and Development (IPR Prague) presented a study concerning this matter about two years ago. As far as individual automobile transportation is concerned, it is the construction of the Radlice radial route and preparation of the Municipal circuit, with the completion of the Prague ring road being of key significance. All of these constructions are covered by the city planning documentation and Prague cannot go on without them.

How do you perceive the actions of the new Prague coalition with respect to construction and infrastructure?
Neither the new Prague coalition nor I have been in the office for more than 100 days. Therefore, let me wait, at least until those 100 days have passed, before I make any evaluation.

What is your opinion on the role of municipalities in the construction of new apartments? Are municipalities and the government supposed to play any significant role in this area?
I believe that municipalities, Prague in particular, cannot give up their role in new residential construction. It will be necessary to find a model of cooperation between the public and private sectors to facilitate the construction of new apartments. However, what I cannot imagine is that municipalities would be the developer/investor of such construction. It should be about cooperation between both sectors, generating advantages to all stakeholders.

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Czech Economy 2018 and 2019

Forecasts of basic economic parameters over the past year came true as expected. The outlook for economic development in 2019 also seems real. Growth is expected to slow, both locally and globally. The uncertainty related to the global political situation will significantly affect financial markets.

In 2019, we expect slowdown in GDP growth in the Czech Republic to 2.2%.

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Despite shocks on financial markets and rising trends of protectionism, the global economy managed to accelerate the pace of its growth to 4.0% from 3.7% in 2017. The Czech economy did well, too; focal point of growth moved to domestic demand. Nevertheless, favourable development in the last five years exhausted labour market reserves. The unemployment rate fell to the historically lowest value and labour shortage became the major problem. As expected, an increasing pressure on wage growth responds to this situation. In reaction to it, monetary policy is tighter. In 2018, the Czech National Bank (CNB) increased its base interest rate in five steps from 0.5% to 1.75%.

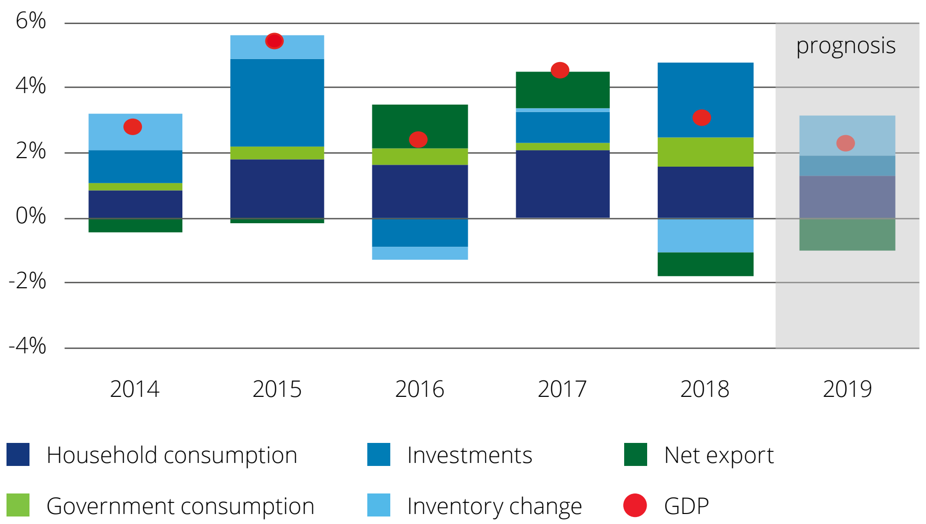
Global influences

The year 2019 will be marked by a progressive decline of both, global and local business cycle. 2019 will be "nervous" due to financial market volatility and concerns about geopolitical risks. Nobody knows how the US trade war against everyone else will end. An occasional / temporary peace with China is very fragile. Europe fears export tariffs on cars to the US. Crisis plans for hard Brexit look like preparing for a war. Italian public finances are another landmine of the euro area. Parliamentary elections in Greece might wake up demons of the local debt crisis. Finally, there are also elections to the European Parliament which await us.

Czech economy in 2019

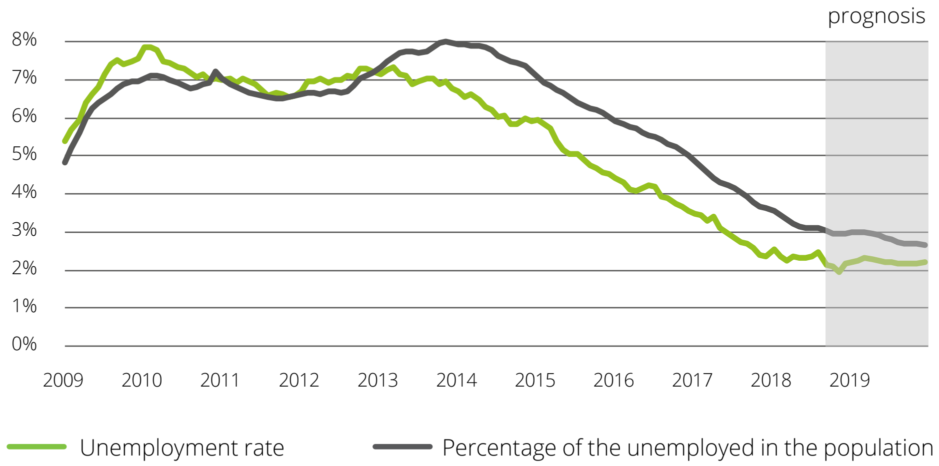
- The global economy in 2019 will probably slow down slightly. We expect global GDP growth of 4.0%. For the Czech economy, continued economic downturn in growth in the euro area to 1.8% is particularly important. It will be reflected in deepening the negative contribution of net exports to the GDP growth. The domestic demand should be influenced by monetary policy tightening of the past year. In 2019, we expect a slowdown in the GDP growth in the Czech Republic to 2.2%.
- The slowing growth will not become evident on the labour market for now. The unemployment rate should remain low. Wage growth should be somewhat slower than in 2018; however, the pressure of trade unions, raising public sector wages and further increase in the minimum wage may contribute to the continuation of rapid rise in wages. 2019 will be the fourth year in a row when wages grow faster than work productivity.
- Frequently, wage inflation is a precursor to consumer price inflation. However, so far, the wage growth manifested itself mainly by decreasing margins of producers and traders. Food price inflation will also contribute to consumer price inflation due to a low harvest last year and energy price increase at the beginning of the year. Inflation should be above the 2% inflation target of the CNB throughout 2019 and simultaneously remain within the tolerance field.
- The prospect of slowing economic growth and inflation within the inflation target leaves room for monetary policy relaxation. At the beginning of the year, the CNB is likely to raise interest rates once again but for the rest of the year the rates should remain stable.
- A number of measures taken in 2018 will be reflected in the fiscal sector. From salary growth in the public sector to pension valorisation to the introduction of discounted fares for students and seniors. The result should be a decrease in government surplus in 2019 to 0.8% of GDP. Despite the deterioration of fiscal discipline, public finances should remain on a long-term sustainable trajectory. Government debt should fall to 28.4% of GDP in 2019.
- While optimism prevailed at the beginning of 2018 and the economies of the euro area and the Czech Republic were at the peak of their business cycle, nervousness and uncertainty dominated in early 2019. Mirrors of concern are the recent stock market falls. A slight slowdown in economic growth is not a tragedy and it is likely to occur eventually. However, if some of the existing geopolitical risks are met, the slowdown in growth could be more noticeable.

GDP growth



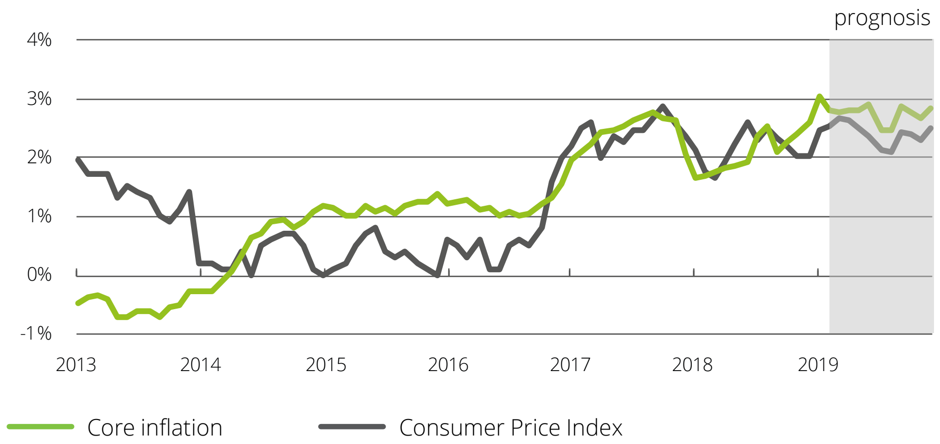
Source: Czech Statistical Office, Deloitte

Unemployment



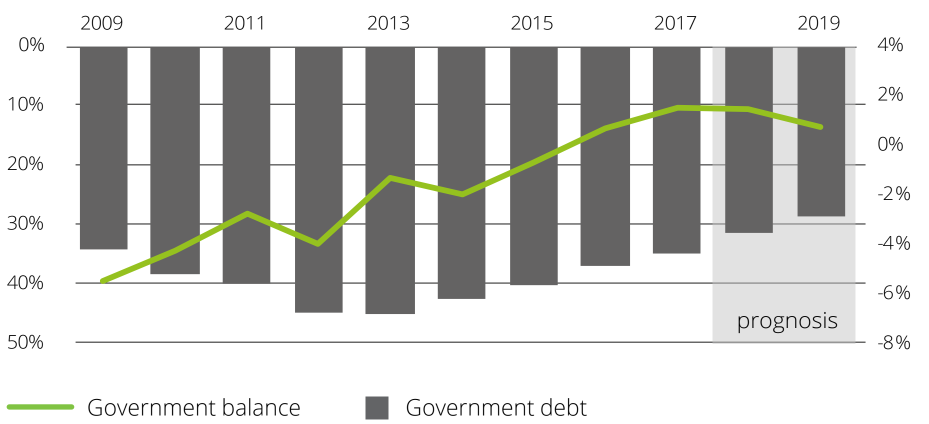
Source: Czech Statistical Office, Ministry of Labour and Social Affairs, Deloitte

Inflation



Source: Czech Statistical Office, Czech National Bank, Deloitte

Balance and government debt (in % GDP)



Source: Czech Statistical Office, Czech National Bank

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2019 Real Estate Predictions

Which factors will move the world of real estate forward?

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Last year, Deloitte started publishing a series of short articles presenting basic approaches bringing changes in the real estate sector. The topics included co-working, blockchain, robotics and human health. The successful series now continues to introduce more themes concerning technology, strategy and the future of work. Join us to look at the future through a brief summary of the issued articles.

Data Driven Business Models

As technology becomes more affordable, it increasingly more often shapes all aspects of our lives. Sensors and smart devices already rank among standard equipment of buildings and, what is more, start to appear in the public space as well. Their utilisation entails production of data whose volume is to increase exponentially. Providing that they are used effectively, such data can give real estate market players a competitive advantage and help them avoid potential disruption in specific business areas. For example, predictive analytics may provide timely alerts in the maintenance of technical components of a building and, using artificial intelligence, increase digital security. However, cooperation of all stakeholders will be necessary to use the potential of such technology to the maximum.

Digital twins

As buildings become increasingly more complex and any subsequent reconstruction is difficult to coordinate, a digital twin provides room for a timely simulation of activities and access to up-to-date information. To maximise benefits in building maintenance, the approach to the digital twin must subsequently reflect all of the key aspects of a stay in the building – electricity consumption, temperature regulation, air quality and movements of persons. A model considering all of those aspects may be applied to other buildings in the portfolio, which may result in energy consumption optimisation or complex scenario simulation.

Industrial property

Not long ago, the industrial property market was considered the "ugly duckling". Due to the rise of e-commerce, industrial property became one of the most desirable assets on the investment market. Changes in shopping behaviour caused a constant lack of logistics premises. New opportunities have slowly emerged in redundant commercial premises on the outskirts, resulting in the development of so-called "urban logistics". In a nutshell, urban logistics refers to delivering orders from nearby logistics centres on the same day or even within several hours from placing orders in an e-shop. Therefore, elaborate supplier chains and their higher efficiency, not only by means of robots, will continue to play a key role.

Circular economy

All around the world, governments, construction companies, and NGOs have committed to minimising raw material usage in the real estate and construction industry. In the Netherlands, for example, it was recently agreed that by 2030 a 50% reduction of raw materials usage needed to be realised. Although such a transition entails numerous barriers, it also provides some revolutionary opportunities, such as the so-called capitalisation of materials in financial statements. This means that the value of material for building construction that has not yet been recognised will be presented directly in financial statements.

Security solutions

As extensive technology advancements reshape the traditional commercial real estate (CRE) business model, owners and operators must contend with new forms of risk. There has been an increased utilisation of sensor-enabled building management systems to eliminate cyberattacks and enhance information security and data privacy. Real estate owners must improve the security of their data and also provide better protection against potential reputational damage to operators and tenants.

To read the whole series of articles, please click **HERE**

Real estate predictions – topics:

1. Data Driven Business Models
2. Digital Twins
3. Industrial property
4. Circularity
5. Cybersecurity Issue 1 & 2
6. Blockchain
7. Strategic Approach to Real Estate
8. Future of Work
9. Future of Commercial Real Estate
10. Transit Oriented Development

Development projects in mountain resorts – a new boom in the residential market

Recently, new housing projects of a more luxurious standard have been established not only in Prague.

Hundreds of new apartments that are sold as classic housing units with all accessories are built in virtually all mountain resorts throughout the Czech Republic. This new trend is mainly due to the increased interest in domestic tourism, improvement of services in local ski resorts and general wealth of the population.

The popularity of Czech mountains is confirmed by the record number of tourists in recent years. For example, according to data from the Czech Statistical Office, over 1 million guests visited the Krkonoše Mountains in 2017, which was by far the most since 2012, when data began to be monitored. In 2016, just over 900,000 tourists stayed in hotel facilities, it represents an annual growth of almost 11%. Despite the fact that the data for the entire year 2018 have not yet been published, it is already certain that the number of guests in Krkonoše rose again. In the first nine months of 2018, the number of tourists exceeded the total number of guests in 2016. The most significant growth in terms of season was recorded mainly in January and February, when the main ski season is in progress. It follows that the concentration of guests in mountain resorts, especially in the winter months, rises steeply, which is reflected, among other things, in increased demand for own housing in the mountains.

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Number of guests in the Krkonoše tourist region

Source: Czech Statistical Office

Luxury apartments for sale and for rent
Staying in a mountain chalet or in a guesthouse has become uncomfortable for a certain group of people for a variety of reasons, which resulted in the search for new opportunities, how and where to spend the holidays in the mountains. This trend was also noticed by developers and they began to adapt their projects mostly to the current needs of the affluent clientele. Fully furnished apartments, interesting architecture, quality materials, sufficient privacy, as well as cleaning services, wellness or reception services are among the main attractions new mountain developer projects can offer. Nevertheless, such a high level of services has to be reflected in the price. Therefore, in terms of finances, some projects may compete, without exaggeration, even with very luxurious projects in the centre of Prague. In the case of Krkonoše, the average bid price of selected projects currently available ranges from CZK 68,000 / m² to CZK 125,000 / m². Despite such a high price, apartments often disappear from price lists even before construction starts. Individual projects differ fundamentally only in the locality. The first part targets customers preferring easy transport services and quality service availability right in the centre of mountain resorts. The second type are projects on the very edge of mountain municipalities or even in secluded places, where the minimum distance to ski lifts, peace and privacy are the decisive factors.

Selected current development projects in mountain resorts

Project name	Municipality	Number of houses	Number of units	Average bid price (in CZK)	Website
Villa Central	Janské Lázně	1	11	125,000	www.villacentral.cz
Aldrov Apartments & Resort	Vítkovice	8	139	112,000	www.crescon.cz/cs/projekty/aldrov
Apart-pension Avion slunečná pláň	Pec pod Sněžkou	1	17	106,000	avionpec.cz
Trio Harrachov	Harrachov	3	39	83,000	www.trioharrachov.cz
Slunečná Louka	Černý Důl	1	16	78,000	www.slunecnalouka.eu
Zlatý Hamr	Janské Lázně	9	18	76,000	www.zlatyhamr.cz
Apartmány Rokytnice	Rokytnice n/Jiz.	2	21	68,000	www.apartmanyrokytnice.cz

Další formou, která může uspokojit Another form that can satisfy the high demand for new types of housing in the mountains are luxury apartments for rent. In terms of equipment and services, they are not much different from classic hotel facilities, as they also offer reception, wellness, catering options or room cleaning. On the other hand, apartments can function as separate units featuring necessary facilities.

Recreation and investment
It is clear that development projects in mountain resorts have mainly a recreational function and are the second home for people to relax and spend their free time. Concurrently, it is an interesting investment opportunity; apartments can be rented and bring additional income to the family budget. However, in case of deterioration of economic conditions, this unconventional type of residential housing will be considerably affected by a significant decline in demand.

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Building Icons **Kotva**

The area of the Republic Square (Náměstí Republiky) in Prague began to emerge approximately in the 1860s, when parts of the medieval walls were removed. At that time, the first proposals for a new development appeared, the most significant one was the Municipal House (Obecní dům) from 1912. The gradual development in the 20th century made the square a significant public space. Under socialism, an unusual, peculiar form of architecture appeared in the city centre for the first time – a hexagonal department store named after the building in close proximity. Kotva.

According to the city plan in force at that time, the construction of a central department store in the centre of Prague was to be carried out on Senovážné náměstí. In the end, the construction was not executed mainly due to the expected length and complexity of construction; it would not have been realistic to realise the entire construction within the required time. Therefore, priority was given to the location on the Republic Square, where it was possible to realise the construction in a significantly shorter time. However, still in 1971, there was a city park connecting Rybná, Revoluční and Královdvorská streets on the site of the future department store.

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The winning project of "honeycomb"
Married couple Věra and Vladimír Machonin's project won the 1969 architectural competition for the design of a new department store. Until then, these architects had already designed architectural projects for the building of the Czechoslovak embassy in Berlin or an international hotel with cinema auditoria in Karlovy Vary – today's hotel Thermal.

The basic idea of their design was to divide the parcel into 28 regular hexagons that were supposed to resemble a honeycomb. This not only maximised utilisation of the built-up area, but also adhered well to the character of the blocks of flats in the vicinity. Another significant feature was the arrangement of the building itself. Unlike the previously realised department stores, the architectural design opened the building more into the exterior, mainly by means of continuous windows over the entire height of the floor.

Builders from Sweden
The realisation of the new construction began in the spring of 1972 and, thanks to the design solution, lasted only until the autumn of 1974. Due to the specificity of the project, the regime had to employ a contractor from abroad. The choice fell on Svenska Industribyggen AB (now Nordic Construction Company) from Sweden. After getting acquainted with the design solution, the contractor decided to replace the original steel skeleton with a supporting reinforced concrete structure with a span of one hexagonal ceiling field of 14.2 metres. Most of the building materials used were originally from Sweden and were transported to the central warehouse at Ruzyně by ships and lorries.

Construction workers and experts travelled from Sweden to Prague along with the building materials. In total, approximately 250 people were involved in the construction; they were in charge of the entire construction, except for the foundation and substructure. Many stories and legends are linked with their work in Prague, how they played squash on the court at the construction site on weekends.

Underground garages and cinema
The construction was completed in November 1974. The whole process from design to completion of construction work thus lasted exactly five years. Compared to hotel Thermal, where the process lasted 13 years, it is a very good performance.

The official opening of the new department store Prior Kotva took place on 10 February 1975 and was attended by dozens of prominent politicians and personalities from both countries of the federation. At the opening, the department store had a total sales area of 22,160 square metres; underground garages had 350 parking spaces, which was not usual at that time. There was even a cinema auditorium in one of the underground floors. For sales purposes, the roof was also used, where, for example, equipment for camping was exposed.

According to the calculations of that time, Kotva was supposed to replace almost 270 ordinary retail units and be visited by approximately 75,000 visitors a day, with 1,700 to 2,000 employees. Its popularity was largely due to its excellent location, architectural design and general public perception as ordinary consumers went to Kotva with the vision of buying scarce goods. However, they were often disappointed as the Prior store could only offer a commonly available range of products.

1990s and the present
During the 1990s, Kotva became part of the voucher privatisation and the majority share was acquired by the fund Trend, whose owners subsequently tried to siphon off the fund's assets through offshore companies. After several years of litigation with the majority owner, in 2005, the Irish investment company Markland Holdings became the owner and initiated significant investments in reconstruction. However, due to the company's inability to pay its liabilities to banks as a result of the economic crisis, its assets passed under the management of the Irish National Asset Management Agency (NAMA), which in 2016 concluded the sale of Kotva to PSN. PSN now intends to renovate the department store through a sophisticated business concept and bring it back among Europe's most popular department stores.

More than a symbol of socialism
Kotva, with its conception and unconventional setting in the narrow centre of the city, significantly influenced the final appearance of the Republic Square. For many people, it is still a symbol of the socialist regime although its realisation is proof that even in the period that did not favour artists, quality architectural works were created. Kotva is rightly one of Prague's icons waiting for renewal of its faded glory.

The official opening of the new department store Prior Kotva took place on 10 February 1975 and was attended by dozens of prominent politicians and personalities from both countries of the federation.

Kotva in numbers

1975
Year of opening

22,160 m^2
Sales area

75,000
Daily number of visitors on opening

350
Number of parking spaces

14.2 m
Span of 6-angle fields

28
Number of hexagons on the plan view

Recodification of building regulations acquires first concrete outlines

In recent months, the need to accelerate the authorisation of new buildings is widely discussed in Czech media. However, this objective cannot be achieved without substantial conceptual changes in the current building regulations. Nevertheless, the initiatives for these changes do not come only from the Ministry for Regional Development, but also (in particular) from experts and Members of Parliament.

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The efforts of the Ministry for Regional Development to simplify the existing building regulations and speed up the building permit process can be undoubtedly described as positive for building owners.

The currently valid and effective Building Act is criticised especially for its complexity and lack of clarity, which is partly due to a number of non-conceptual amendments; in the twelve years of its effectiveness, more than twenty amendments have been adopted. Yet, all interested parties agree that the current unfavourable situation is unsustainable in the future: the construction of new apartments is very complicated and the realisation of a number of constructions related to transport and economic infrastructure is at risk as well.

Recently, there have been a number of partial attempts to simplify and accelerate the building permit process, for example by introducing the so-called joint planning permission and building permit. Another example may be the introduction of a fiction of unnecessary binding opinion into the Act on Acceleration in Construction of Transport, Water and Technical Infrastructure. According to this measure, if the authority in question does not issue the binding opinion within the prescribed period, the binding opinion is no longer required for issuing the decision in question. Even if this binding opinion was delivered belatedly.

Simultaneously, there are efforts to implement such provisions in other acts as well. For example, the Act on Linear Constructions, in which a provision establishing a fiction of consent should be added in the future. On the basis of this provision, inactivity of the authorities concerned would be considered as an agreement with the proposed plan. However, it is already clear that these individual steps will not be sufficient in the future.

Hopes for a change in the Building Act

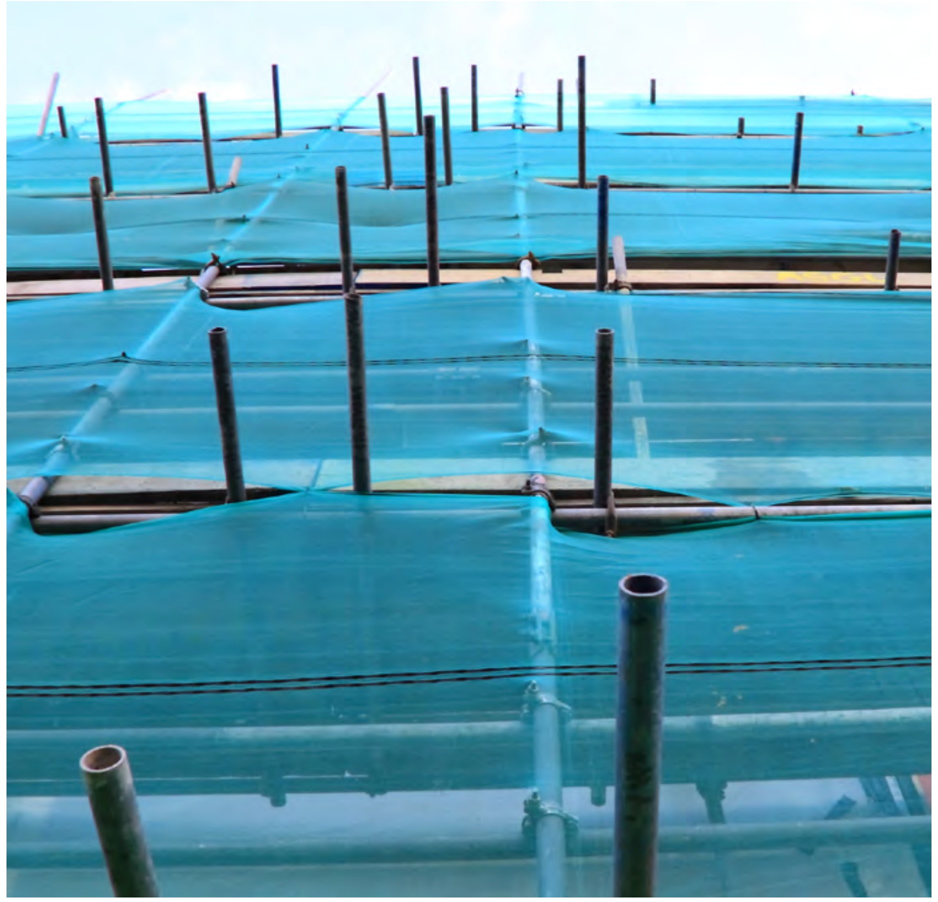
At present, three parliamentary proposals for amending or revising the Building Act and related regulations are discussed in the Chamber of Deputies. The amendments in question aim to simplify some of the building regulations, but it is clear that these initiatives cannot meet the expectations of building owners without further attention. Moreover, experts point out that there is no use in amending the current Building Act because its truly effective amendment would require fundamental and profound changes throughout its original concept.

Therefore, the Ministry for Regional Development decided to create a completely new draft of the building act (and change the related regulations), on which it has been working with experts for many months. The draft of the white paper of this new building act together with the submission report and other enclosed documents were submitted to the consultation process between government departments at the beginning of February 2019.

This new objective is trying to reach a number of ambitious goals, let us list the most fundamental ones:

- An important conceptual change is the establishment of a new structure of building authorities, which should be more independent of local authorities. It should eliminate the element of the so-called systemic bias and a unified and independent system of building authorities, modelled after financial or cadastral offices, should be created.
- The current inefficient system of building authorities is fragmented both in the organisational sense, several hundred building authorities of various sizes and professional levels exist side by side, and in the factual sense, there are a number of specialised offices performing state administration in relation to construction (e.g. rail or water authorities) apart from the general building authorities.
- In this context, we also add that the building agenda should also be unified in the future at the central level of the state by the establishment of the so-called supreme building and territorial planning office. In particular, the task of this central authority should be to unify the activities of subordinate building authorities and to provide certain other services connected, for example, with the digitisation and electronisation of building permit processes.
- However, the main conceptual change in the white paper seems to be an effort to introduce a unified authorisation process that would integrate both the territorial and building permits as well as the processes associated with the EIA and obtaining the opinions of the authorities in question.
- The number of necessary opinions of the authorities in question should be significantly reduced by the new building act from the current (up to) several tens to a significantly lower number. Concurrently, the so-called fiction of consent for these authorities in question should be introduced. In practice, it means that if the authority in question does not issue its opinion regarding the proposed plan within the prescribed period, the authority is considered to agree with the proposed plan.
- As a result of the aforementioned unified authorisation process, the building owner should be entitled to carry out the proposed plan on the basis of a unified administrative decision without any additional action required. To ensure real efficiency of a unified authorisation process, the Ministry for Regional Development proposes to set binding deadlines of approximately two months for building authorities to issue an opinion. The Ministry for Regional Development declares that this way the building permit process should be shortened to approximately four months, including subsequent appellate procedure. We would like to add that currently, all phases of authorisation processes, including their review by appellate bodies, usually last for several years.
- According to its statements, the Ministry for Regional Development would like to enforce the new building act to come into force from 2021, even though the entire recodification process will be very lengthy and will contain a number of political difficulties. It can be assumed from the fact that, along with the building act, it will be necessary to amend or fundamentally revise a number of special acts; and there are currently more than eighty of them in the Czech legal code.

The efforts of the Ministry for Regional Development to simplify the existing building regulations and speed up the building permit process can be undoubtedly described as positive for building owners. However, given that the entire legislative process is still at the very beginning, it is difficult to estimate the final form of the future building act. Nevertheless, the new legislation is expected to bring at least some of the above-listed changes.



SmartRE | Real Estate Magazine | March 2019

Use of the guide value in determining the real estate acquisition tax base

For the purpose of determining the real estate acquisition tax base, a taxpayer has the possibility to choose either the price determined by an expert valuation or the so-called guide value ("směrná hodnota") as the comparative tax value. The Financial Administration has so far argued that the taxpayer can no longer change the selected option, for example by filing an additional tax return. However, the Municipal Court in Prague has now expressed the view that the taxpayer may change its decision until the tax is assessed.

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When buying real estate, the buyer is required to pay a 4% real estate acquisition tax or 75% of the so-called comparative tax value, whichever amount is higher. According to the Senate's Ordinance No. 340/2013 Coll., on Real Estate Acquisition Tax, since 1 January 2014, taxpayers have had the option of choosing the comparative tax value either according to an expert valuation, or for selected real estate (e.g. family houses and apartments, garages or family recreation buildings), i.e. the guide value.

In the case of the expert valuation, the procedure is simple. The taxpayer compares the purchase price and 75% of the price according to the expert valuation and then calculates the tax from the higher amount and makes a payment to the tax authority within the statutory deadline.

In the case of the guide value, the procedure is different. The guide value is a form of the "market" price, which is determined by the Tax Administrator itself on the basis of prices of real estate at the place where the real estate is located, in a comparable time period, taking into account the type, location, purpose, condition, age, equipment and construction technical parameters. In the tax return, only a tax prepayment in the amount of 4% of the purchase price of the property is stated.

The Tax Administrator then makes a comparison between the purchase price and 75% of the guide value it calculates on the basis of the information provided by the taxpayer in the tax return. If the purchase price is higher, the Tax Administrator assesses the real estate acquisition tax in the same amount as the tax prepayment calculated by the taxpayer. If the guide value is higher, the Tax Administrator assesses the tax via a payment assessment notice to be paid within an alternative due date of 30 days.

If the guide value is selected, the taxpayer can expect an unpleasant surprise involving the amount of the tax assessed by the Tax Administrator in case the guide value varies considerably (especially in more remote areas) from the purchase price (increasing tendency). However, from the wording of the Ordinance, it is unclear whether the taxpayer is allowed to revisit its choice after such a finding and use the customary price according to the expert valuation.

The Municipal Court in Prague has recently addressed this question. In the case in question, the taxpayer first selected the guide value and provided all necessary data for its determination in the tax return. Upon receipt of a payment assessment notice for a supplementary tax payment, which was determined on the basis of the guide value and which was higher than the purchase price, the taxpayer filed an appeal and requested a change of the comparative tax value from the guide value to the price determined. However, the Tax Administrator rejected this procedure and the Municipal Court upheld its decision. According to the Municipal Court, the purpose of an appeal is to remedy the deficiencies of the decision or procedures, not to change the procedure originally selected. Especially because the taxpayer has an opportunity to calculate the guide value on the website of the Financial Administration prior to submitting the tax return (http://smernahodnota.financnisprava.cz). Therefore, the taxpayer's request for the determination of the comparative tax value to the price determined can only be accepted until the tax is assessed.

When selecting the guide value, the assessment procedure usually takes longer, as the Tax Administrator needs to verify the information provided by the taxpayer to calculate the guide value. The length of the assessment procedure is not specified by law or by any other regulation, so it always depends on the particular Tax Administrator, the type of real estate and the amount of information necessary for verification. It is during this time that taxpayers still have a final opportunity to change their original decision.

When buying real estate, the buyer is required to pay a 4% real estate acquisition tax or 75% of the so-called comparative tax value, whichever amount is higher.

Association of Building Entrepreneurs of the Czech Republic (ABE) hopes for a new start, asking how to take advantage of the growing economy

One of the major events within the Czech construction industry, the Czech Construction Forum, took place at the PVA EXPO PRAHA Congress Hall in Letňany on 6 March. The morning block entitled "Dialogue with the Government" served as a meeting of the representatives of Ministries and other guests with the government.

Marcela Pavlová, Deputy Minister for Regional Development of the Czech Republic responsible for managing construction and public investments, gave a speech concerning public investments and the new construction law. "From the very beginning, there needs to be an agreement among all ministries as to how the amendment to the construction law or an entirely new construction law should look. A revision of what is considered "public interest" should be made. The Prime Minister wishes the new construction law took effect from 1 January 2021." Jiří Nouza, ABE's President, followed up Ms Pavlová's speech by stating: "I think that the economic growth is still satisfactory." After having summarised the outcomes of the Czech construction industry in 2018, Mr Nouza focused on the current state of legislation, anticipated development of construction production in 2019, transport infrastructure and residential construction. "We should realise that builders, state administration representatives and developers are all in the same boat. We have the same goal, which is why we should cooperate. We should participate in projects that are intended for the public," said Jiří Nouza.

The large panel discussion was attended by previous speakers and other representatives of the ministry: Vladimír František Mana, Deputy Minister responsible for the State Administration section at the Ministry of the Environment of the Czech Republic, Eduard Muřický, Deputy Minister responsible for the Industry, Material and Construction section at the Ministry of Industry and Trade, and Tomáš Čoček, 1st Deputy Minister at the Ministry of Transport. The debate concerned various topics, such as clarifying the perspective of large investments, transforming the Ministry for Regional Development into the Ministry of Public Investments and preparation of new construction legislation. "We want to accelerate the authorisation process," said Ms Pavlová with regard to the realisation of construction. "We wish to transform the Ministry for Regional Development into the Ministry of Public Investments; this also relates to construction law and other legislation." However, she did not specify the exact day from which the office should operate as the preparation process is still underway. In this context, Mr Muřický observed that most stamps authorising a construction should be ensured by authorities rather than the investor. "It is therefore necessary to use digitalisation to a greater extent, which is already common abroad," he said. "The approval process would certainly be facilitated by merging the Building Authorities as was mentioned by Ms Pavlová," said Tomáš Čoček. He also agreed that the management of the construction segment should not be as fragmented as it is now – it falls within the powers of five Ministries at present. Vladimír František Mana noted: "It is necessary that these measures be performed correctly otherwise we will be facing great legislative troubles."

The programme block after coffee break was called "New Start and New Approaches". The economist Petr Zahradník, a member of the European Economic and Social Committee in Brussels, gave a presentation entitled "Industry in the context of the macroeconomic development and the development of investments and construction". He said that future economic determination principally depends on the degree of private and public investments, whereby the Czech Republic is predominantly challenged by the low return on investments and the limited scope of investment impacts.

The speakers also included Milan Zelený, Professor at Fordham University and Tomáš Baťa University in Zlín. His presentation was in the form of a video call entitled "How to conceive a new start and what are the new approaches?" He emphasised the need for contemplating whether the existing traditional building methods are sufficient in the current world, considering technology developments and new generation's requirements. "It is necessary to approach new generations who have different interests," he said. "Appealing to young people with extensive economic and environmental expertise and bringing them into the construction industry... such that construction could become future-oriented."

What to do next? An investor's perspective was introduced by Tomáš Pardubický, CEO at Finep. In his view, "public interest" resulted in a growth in apartment prices by 52%. While the average price per sq. meter of a new apartment in Prague was CZK 52,000 including VAT in 2008, it was already CZK 96,000 in 2018. A new home is not affordable for 21% of voters in Prague. Mr Pardubický thus believed that the issue of housing should become the political topic of 2019.

"From digital projection to digital construction site: the vision becomes reality" was a presentation given by Štefan Moravčík, Executive Architect and Publisher at Archinfo, and Libor Hynek, Value Sales Specialist at HP. They said that the only certainty to be awaited by Czech construction is that everything will change and nothing will be as is now. Digitalisation and new technologies bring new opportunities which we must able to seize and must not be afraid of.

The afternoon panel discussion focused on selected aspects of construction development. The policy of public investment was the first topic debated by Miloslav Mašek, Managing Director at SPS, Pavel Hečko, Councillor for the Hradec Králové Region, Miroslav Linhart, Director responsible for Real Estate Advisory at Deloitte, and Marcela Pavlová, Deputy Minister for Regional Development of the Czech Republic responsible for managing construction and public investments. The other parallel discussion focused on digitalisation of the industry and construction, with the speakers including Tomáš Krásný, Managing Partner at Blue Events, David Bárta, Publisher at city:one, Martin Folber, Head of realisation at CAD Studio, Lukáš Tunka, BIM senior consultant at CAD Studio, Vladimír Mašinský, Head of Business Development at Sharry Europe, and Jaroslav Nechyba, Director of the BIM conception division at Czech Standardization Agency.

The Czech Construction Forum has been organised by the Association of Building Entrepreneurs of the Czech Republic in cooperation with Blue Events already since 2004.

Author: Alena Čechová, ABE's spokeswoman

Calendar of Events

HOF Awards – Best of the Best 2019
4 April 2019
Marriott Hotel, Prague
hofawards.eu/

CFO Congress 2019
16 April 2019
CNB, Prague
cfocongress.cz/cs/

CEE GRI 2019
14–15 May 2019
Warsaw
griclub.org/event/realestate/

CEEQA Gala 2019
15 May 2019
Warsaw
ceeqa.com/2019/gala

Prague Property Forum 2019
4 June 2019
Cubex Centre, Prague
property-forum.eu/forums

All previous issues are available in the SMART Construction section at www.sps.cz or at www.deloitte.cz/realestate